

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 2004

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-24455

TORVEC, INC.  
(Name of Small Business Issuer in its charter)

NEW YORK  
(State or other jurisdiction of  
incorporation or organization)

16-1509512  
I R S Employer Identification No.

1169 Pittsford-Victor Road  
Building 3, Suite 125  
Pittsford, New York  
(Address of principal executive offices)

1634  
(Zip Code)

Issuer's Telephone Number, including Area Code: (585) 248-8549

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on  
which registered

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Securities registered pursuant to Section 12(g) of the Exchange Act

\$.01 par value common voting stock  
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No    

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ X ]

State issuer's revenues for its most recent fiscal year. \$0.00

State the aggregate market value of the voting stock held by nonaffiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12(b)-2 of the Exchange Act). \$52,929,735

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes     No    

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 29,194,536.

#### DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

Transitional Small Business Disclosure Form (Check one):

Yes     No X

## PART I

### THE COMPANY

#### Item 1. DESCRIPTION OF BUSINESS.

##### (a) History and Development of Our Inventions

Torvec, Inc. was incorporated as a New York business corporation on September 25, 1996. Upon its incorporation, the company acquired numerous patents, inventions and know-how developed for more than thirty years by Vernon E. Gleasman and members of his family. Upon its incorporation, the company commenced the development of its full terrain vehicle (“FTV<sup>TM</sup>”) - the merger of the speed and handling of a truck with the full terrain capability of a tracked vehicle. Through the ongoing creation, development and improvement of its FTV, the company developed the following inventions relating to seven distinct fields of automotive and related technology, each of which having individual commercial potential:

- (i) Iso-torque<sup>TM</sup> differential (next generation of Torsen<sup>®</sup> differential - see “Torsen” on Google websearcher);
- (ii) infinitely-variable transmission;
- (iii) steering drive and suspension system for tracked vehicles;
- (iv) high speed, steel-reinforced rubber tracks;
- (v) hydraulic pump and motor;
- (vi) spherical gearing constant velocity mechanism;
- (vii) ice adhesion modification system.

As a family, the Gleasmans manufactured, operated and sold their own innovative products and companies for the 30 years prior to the company's incorporation. The Gleasmans knowledge of the automotive industry and its trends was the basis of the invention of the company's FTV. The Gleasman's creativity, experience and expertise have been recognized worldwide - in particular, Vernon E. Gleasman was the recipient of the Society of Automotive Engineers' 1983 Schwitzer Award for the most innovative new product at the Indianapolis 500 and the 2001 Distinguished Inventor of the Year Award granted by the Rochester Intellectual Property Law Association. In addition Vernon Gleasman has been nominated for the Lemelson-MIT prize, one of, if not the, most prestigious engineering awards in the world. For further information on this prize please see [www.lemelson.org](http://www.lemelson.org).

To this date there is no worldwide, patented tracked vehicle with the high speed (60 mph) and handling characteristics of the company's FTV. To facilitate the development of the FTV the company had to resolve numerous engineering hurdles and the company's success in so resolving these engineering problems led to the inventions described above. The first generation FTV prototype was completed in February, 1999 and was initially showcased to the public in early spring, 1999. We have continued to improve the FTV since its introduction in the spring of 1999.

The company intends to incorporate all of the above-referenced inventions into its FTV and commercialize the FTV as a stand alone vehicle. However, each of the company's inventions can be commercialized on an individual basis and the company intends to sell, license and/or jointly commercialize each of its inventions separately in order to generate monies necessary to fully develop and commercialize the company's FTV.

The company and its subsidiaries rely on the services of three officers, those of its management consulting firm, CXO on the GO, LLC, and on the full-time services of Keith and James Gleasman as consultants.

### **(b) Our Automotive Properties**

The following is an overview of our automotive technologies:

#### **Torvec's FTV™**

Historically, wheeled trucks and cars have been able to travel at high speeds on prepared roads and are easy to drive and steer. However, wheeled trucks and cars have lacked the ability to traverse truly difficult terrain. On the other hand, tracked vehicles have the ability to traverse truly difficult terrain but are difficult to steer precisely, are cumbersome to drive and are limited to relatively low speeds even on prepared roads.

The company's FTV prototype is a new type of vehicle, that management believes combines the high speed capabilities of trucks and cars with the high traction capabilities of tracked vehicles. The company has tested the FTV prototype over the past 4 years. It has demonstrated the FTV in person to representatives of many Tier I and Tier II automotive and truck componentry suppliers who are potential joint venture suppliers of the company's FTV. The company's overall strategy with respect to its FTV is to realize the capital necessary to launch the FTV through the sale or license of one or more of the company's patented technologies.

Based upon these tests, demonstrations and the reaction of industry representatives, the company believes it has shown that the FTV is relatively easy to drive and steers as easily as a car and that it has shown that this tracked vehicle can traverse almost any terrain, with speeds of up to 60 mph being attainable on pavement and other relatively flat surfaces. The company also believes that it has shown that the FTV is also environmentally sensitive since its low ground pressure, less than 2 pounds per square inch, does not damage paved road surfaces or leave ruts or cause potholes on unpaved surfaces. The FTV is able to perform as it does because of its unique steering mechanism, which is protected by several U.S., European and Japanese patents. This steer-drive mechanism can best be described in engineering terms as a hydro-mechanical steering mechanism. The "mechanical" portion is manufactured from conventional, high volume gearing, while the "hydro" portion is our patented hydraulic pump and motor. Conventional hydraulic pumps and motors are large, noisy and inefficient at low revolutions per minute. The company believes its patented hydraulic pump and motor has solved these problems.

It should be noted that unlike the United States, the vast majority of third world country roads are unpaved. The FTV is a highly desirable vehicle in these countries given their poor road conditions and weather extremes. The market is significant - 4,000,000 four wheel drive vehicles and light trucks are sold in the Asian, African, Central and South American markets annually ([Automotive News](#), March 2003).

#### **Torvec's ISO-Torque™ Differential**

In 1951, Vernon E. Gleasman invented the dual-drive differential (the Torsen®). For the next thirty years, Vernon Gleasman and his sons manufactured and marketed this differential for the military, for incorporation in high performance cars, off road cars and 4x4 trucks. In 1982 the Gleasman's sold the Torsen differential to Gleason Corporation (for further information on the Torsen, explore "Torsen" on the Google websearcher).

The company's ISO-Torque differential is a dramatically less expensive more efficient and lighter improvement on the Torsen. The Torsen is standard equipment on many major automobiles including Lexus, Toyota, Audi, Land Rover, GM vehicles and others. The major hurdle to the Torsen's utilization in a larger percentage of cars and trucks is price and weight. The company believes that the ISO-Torque differential eliminates these barriers.

### **Torvec's Infinitely Variable Transmission - Hydraulic Pump/Motor**

The company's infinitely variable transmission is a transmission that provides an uninterrupted drive through an infinite number of speed ratios, allowing ideal torque flow to propel the vehicle while permitting the engine to run at optimum efficiency. The company believes that the next generation of diesel engines with state-of-the-art electronics will allow interfacing and provide the necessary mechanisms to adequately control the infinitely variable transmission. Industry data has shown that the use of continuously variable and infinitely variable transmissions improves the fuel efficiency of all engines (gas/diesel), thus leading to reduced pollution. The company believes that its infinitely variable transmission will permit automotive diesel/gasoline engines to operate at ideal combustion rates which will reduce pollution and provide improved fuel economy under normal operations.

In addition to having the potential of reducing diesel particulates and NOx, the company's transmission is less complicated and has approximately 1/3 fewer parts when compared to a conventional four or five speed automatic transmission, making it smaller in size and lighter in weight. The company's transmission, which the company believes will be simpler and less expensive to manufacture than existing transmissions, should provide the automotive industry with a higher performing product at a lower cost.

In December, 1999, the company finished an extensive CAD/CAM evaluation of the infinitely variable transmission. The evaluation included finite element analysis, fluid dynamics analysis and material compatibility analysis for "real world conditions" under temperatures ranging from minus 20 degrees fahrenheit to 120 degrees.

During the summer and fall of 2003, the company took the next steps toward commercialization of its infinitely variable transmission. The company installed the infinitely variable transmission in a 2003 Dodge Ram 3/4 ton 4x4 quad pick-up truck, with an electronically controlled 2004 emissions compliant Cummins turbo-diesel engine. This engine is 5.9 liters in displacement, 250 bhp at 2900 rpm and has 460 lb-ft of torque at 1400 rpm. We chose this engine size because it represents a huge market - SUVs, light trucks, delivery trucks, school buses, airport shuttle buses and class 3 to 5 trucks.

The company next engaged the independent engineering firm of Viewpoint Systems, Inc. (a "Select Integrator" of National Instruments) to conduct a series of fuel-efficiency tests on the transmission. These independent tests confirmed that the company's 3/4-ton 4x4 Dodge Ram truck, utilizing the company's infinitely variable transmission with a diesel engine, generated a 96% improvement in fuel mileage over that obtained by a gasoline-powered, 4-speed automatic 4x4 truck of comparable weight and horsepower to the most popular SUVs. The tests also confirmed that Torvec's 3/4 ton diesel truck --

- generated a 38.5% improvement in fuel efficiency over a same-model Dodge 4x4 diesel truck with a 4-speed automatic; and

- generated a 28.5% improvement in fuel efficiency over a same model Dodge 4x4 diesel truck with a manual transmission.

In addition to demonstrating that our transmission achieved superior fuel economy, the tests also confirmed that other objectives, long sought by the automotive industry, were achieved:

- the elimination of "vehicle creep", a characteristic of an automatic transmission vehicle at rest without application of the brake;

- interchangeability, i.e. Torvec's infinitely variable transmission fit in the same space as an existing automatic transmission, thus, eliminating the need for major costly design changes to car and truck frames.

The company's patented infinitely variable transmission dramatically reduces weight, complexity and cost compared to previously designed pumps and motors. More specifically, a commercial hydraulic pump and motor that is 12.7 cubic inch displacement weighs approximately 360 pounds compared with the company's equivalent pump and motor which weighs approximately 80 pounds.

### **Spherical Gearing Constant Velocity Mechanism**

The company's constant velocity mechanism features a new form of gearing - spherical gearing - which is based upon the geometry of spheres rather than conventional gear geometry of cylinders and cones. The company has developed this spherical gearing to replace constant velocity joints used, among other places in all front wheel drive vehicles. The company's constant velocity joint is a departure from known designs and its efficiency and weight savings may provide significant competitive advantage in the annual constant velocity joint market of over 200,000,000 per year. The spherical gearing constant velocity mechanism has been prototyped in steel and constituted the basis for the Rochester Intellectual Property Law Association awarding Vernon Gleasman its Distinguished Inventor of the Year Award in 2001.

The company's spherical gears have been used to form a geared ball and socket coupling in which driving tooth contact is maintained continuously while at the same time permitting the coupling to be flexed up to 52 degrees. The potential versatility of the company's spherical gears may open the door to many yet unknown solutions and products yet to be discovered.

The company's constant velocity joint delivers torque through a varying angle. For example, it moves through a drive shaft to the wheels of a front wheel drive car as it is steered. The patented breakthrough in the company's constant velocity joint, management believes, is the unique use of spherical geometry to deliver torque over a greater range of motion and more evenly, with fewer parts, less weight and lower cost than the competition.

The company initially developed its constant velocity joint to provide a better performing torque transfer component for some of its other products. It has recently begun pursuing applications beyond its original intended use. In particular, the constant velocity joint has great potential as a general component to many automotive suppliers, providing a proprietary offering in a commodity field with annual unit sales in excess of 200 million.

### **(c) Our Ice Technology**

On November 29, 2000, the company acquired Ice Surface Development, Inc. ("ISDI"), from UTEK Corporation, 202 South Wheeler Street, Plant City, Florida 33566. As a result of the merger, the company acquired a 20-year, exclusive worldwide license granted by the Trustees of Dartmouth College for land-based motorized applications to a novel ice adhesion modification system developed by Professor Victor F. Petrenko at Dartmouth's Thayer School of Engineering. Our subsidiary, ISDI, is in the process of developing Dr. Petrenko's theoretical constructs into practical, demonstrable ice technology - see our web site [www.torvec.com](http://www.torvec.com) and the web site of our subsidiary ISDI-[www.icesurfacedev.com](http://www.icesurfacedev.com).

The Ice technology as being developed by ISDI may allow for the rapid deicing of vehicle services utilizing three variations for deicing and corresponding process technologies:

- (i) direct current method - through electrolysis, creates a pressurized gas that breaks up and ejects ice, which is ideal for initial ice removal;
- (ii) alternating current (high frequency) method - melts interfacial ice with minimal heat exchange to the surrounding environment thereby reducing power requirements - this method is capable of continuously maintaining ice-free surfaces;
- (iii) pulse method-creates a short-term water barrier that enables ice to be easily removed. This method works well for initial removal and is relatively simple to produce.

Aside from being designed to repel ice on glass and other surfaces, our ice technology may also increase the traction of rubber on ice. New ice traction systems based upon this technology could give vehicles, including the FTV, as much traction on ice as if they were driving on dry pavement. Vehicles could one day be equipped with "smart" tracks that grab ice.

The company acquired ISDI from UTEK to integrate the Dartmouth de-icing technology into its FTV™ as well as to sub-license the technology for a wide-assortment of land-based motorized vehicle applications (e.g. cars, trucks, trains and trailers), including their components (e.g. windshields).

#### **(d) Current Status of Product Development**

See Management's Discussion and Analysis or Plan of Operation, page 22.

#### **(e) Competition and Market Acceptance**

The company believes that its automotive technology is superior to similar products manufactured in the automotive industry and in some instances represents a true paradigm shift with respect to presently known technology. However, once the company commences operations, it will be competing against companies that have significantly greater financial, marketing and operating resources than the company. The company also believes that no other company in the world possesses the right to commercialize technology similar to its ice technology in the motorized, land-based vehicle field.

The company's immediate future development is dependent upon its ability to successfully interest one or more strategic partners (either an automotive OEM and/or first tier supplier) in acquiring one or all of the company's technologies to fund the company's manufacture and marketing of its FTV™. It is also dependent upon acceptance of the FTV vehicle especially in the Asian, African, South and Central American markets.

With respect to these foreign markets, the infrastructure of most of Asia, Africa, South and Central America is very similar to the U.S. in the early 1900's. At that time U.S. demographics were as follows: eighty percent of the population lived in rural areas, income was low and transportation was limited to walking, bicycles, push carts and animal pulled vehicles. Roads, when they existed, were dirt and at time impassable due to terrain or inclement weather. Even with the advent of automobiles, commerce remained inhibited because paved roads were only found in the cities. Similarly, the wheeled vehicles of the developing country today can only traverse the rural dirt roads during certain seasons of the year. When roads are in rough condition (e.g., muddy, blocked by snow or ice, etc.), there is little difference in travel time between an animal drawn cart, a man on foot or bicycle, or a wheeled car. If they are able to travel at all, even four-wheel drive vehicles are usually limited to 4-5 mph under these conditions. The idealized vehicle would be a vehicle that could travel at higher speeds (25-50 mph), regardless of the terrain, significantly shortening the travel time between rural areas and the primary marketplaces in the city. A tracked vehicle, in effect, "brings its own road with it".

The company's ability to generate revenue and become profitable is also dependent upon the automotive industry's acceptance of its other products, namely the Iso-Torque differential, infinitely-variable transmission, the hydraulic pump and motor, the constant velocity joint and spherical gearing. The company's ultimate growth and future financial performance will depend on demonstrating the advantages of such products over existing technologies to an automotive industry which has committed substantial resources to product systems utilizing old technology. In addition, despite management's belief that its products are superior, the company will have to overcome the "not invented here" attitude that permeates the industry.

**Item 2. DESCRIPTION OF PROPERTY.**

The company has leased premises at Powder Mills Office Park, 1169 Pittsford-Victor Rd., Suite 125, Pittsford, New York 14534 for use as its executive offices. The lease is for a period of 3 years, commencing July 1, 2004 expiring on June 30, 2007 with rental payments throughout the period payable at the rate of \$2,164.01 per month. The facilities consist of 1,737 square feet of rentable space and provide for 2 conference rooms, 3 offices and a storage area. The company is also responsible for its share of real estate taxes, certain maintenance and repair costs, and increases in utility costs associated with the premises.

On August 1, 2004, the company leased premises consisting of a 520 square foot automobile bay and utilization of a 7,000 lb. lift for a term of six months at a rental rate of \$600 per month. The lease arrangement permitted the company to have access to a state-of-the-art mustang dynamometer. On December 31, 2004, the company purchased from the previous owner, the dynamometer, the 7,000 lb. lift, a compressor as well as the dynamometer pit and fixtures, fluorescent lighting, HUBC hoses and blowers and assumed the lease and lease agreement from the previous tenant for the entire premises, consisting of a 3,932 sq. ft. facility, including 3 automobile bays. The lease term expires on February 28, 2007 with a monthly rental of \$2,100.

On March 1, 2005 the company entered into a 12 month lease with a shareholder pursuant to which the company rents a 3,131 square foot facility consisting of a 308 square foot office, and a 231 square foot conference room and a 2,592 square foot shop and manufacturing facility. The company is furnished with the services of three engineers and two machine operators at the facility. The company is obligated to pay 10,000 shares of its common stock on a monthly basis for the facility and services.

**Item 3. LEGAL PROCEEDINGS.**

On October 26, 2004, the company commenced an action in the United States District Court for the Western District of New York against ZT Technologies, Inc., an Indiana corporation based in Carmel, Indiana.

The suit petitioned the Court to declare the July 21, 2004 agreement between the parties to be ineffective and unenforceable as between the parties and with respect to any third party.

The parties contemplate entering into a Settlement and Mutual Release of Claims agreement by virtue of which each party will pay its own attorney's fees, and the July 21, 2004 agreement between the company and ZT Technologies, Inc. will be declared ineffective and unenforceable as between the parties.

There is no other litigation involving the company. To the knowledge of management, no federal, state or local governmental agency is presently contemplating any proceeding against the company.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

There were no matters submitted to the company's shareholders during the fourth quarter of the company's fiscal year ended December 31, 2004.



**Subsequent Event**

The annual meeting of the company's shareholders was held on January 27, 2005. At the meeting, at which a quorum of the requisite number of shares under the company's bylaws for the conduct of business was present either in person or by proxy, the following items were voted on by the shareholders with the following results:

1. Election of Directors

<u>Election of Directors</u>	<u>For</u>	<u>Withheld</u>
Read D. McNamara	25,825,988	140,000
Keith E. Gleasman	25,718,288	247,800
Herbert H. Dobbs	25,908,788	57,300
James A. Gleasman	25,850,588	115,500
Gary A. Siconolfi	25,833,562	132,526
Joseph Alberti	25,884,522	81,566
Daniel R. Bickel	25,923,788	42,300

## 2. Ratification of the appointment of Eisner LLP by the audit committee of the board of directors as independent auditors for the fiscal year ending December 31, 2004.

<u>For</u>	<u>Against</u>	<u>Abstained</u>
25,885,713	63,705	17,300

## PART II

### Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

#### (a) Market Information

Effective September 23, 1998, the company's \$.01 par value common stock, as a class, was registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. As a result, shares of the company's common stock which had been owned for one year or more became eligible for trading on the over-the-counter bulletin board maintained by the National Association of Securities Dealers, Inc. on December 22, 1998. The company's stock began trading on January 21, 1999 at \$12.00 per share. The company has approximately 10 market makers for its common stock.

The following table presents the range of high and low bid prices for the company's \$.01 par value common stock for each quarter during its last two fiscal years. The source of the high and low bid information is the over-the-counter bulletin board. The market represented by the OTC bulletin board is extremely limited and the price for our common stock quoted on the OTC bulletin board is not necessarily a reliable indication of the value of our common stock. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

<u>2003</u>	<u>High</u>	<u>Low</u>
1 <sup>st</sup> Quarter	\$.95	\$.62
2 <sup>nd</sup> Quarter	\$3.00	\$.53
3 <sup>rd</sup> Quarter	\$2.85	\$1.55
4 <sup>th</sup> Quarter	\$2.60	\$1.40
<u>2004</u>	<u>High</u>	<u>Low</u>
1 <sup>st</sup> Quarter	\$8.99	\$1.75
2 <sup>nd</sup> Quarter	\$9.98	\$5.15
3 <sup>rd</sup> Quarter	\$6.95	\$3.60
4 <sup>th</sup> Quarter	\$7.05	\$3.15

#### (b) Holders of Common Stock

As of December 31, 2004, the company had approximately 285 shareholders of record and an estimated 2,000 beneficial owners of its common stock. As of December 31, 2004, the company had 29,043,653 shares of its common stock issued and outstanding.

#### (c) Dividend Policy on Common Stock

The company has not paid any dividends on its common stock since its inception. The declaration or payment of dividends, if any, on the company's common stock is within the discretion of the Board of Directors and will depend upon the company's earnings, capital requirements, financial condition and other relevant factors. The Board of Directors does not currently intend to declare or pay any dividends on its common stock in the foreseeable future and intends to retain any earnings to finance the growth of the company.

The payment of dividends on the company's common stock is limited by provisions of the New York State Business Corporation Law requiring that dividends be paid only if, after payment, its net assets at least equal its stated capital. Payment of dividends on common stock is also subordinated to the requirement that the company pay all current and accumulated dividends on its Class A and Class B Preferred Shares prior to the payment of any dividends on its common stock.

**(d) Securities Authorized for Issuance Under Equity Compensation Plans**

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,723,895	\$4.92	276,105 <sup>(1)</sup>
Equity compensation plans not approved by security holders (2) (3) (4)	777,400	\$0.09	(1) (2)-(4)
Total	2,501,295	\$3.42	276,105 <sup>(1)</sup> (2)-(4)

(1) As of December 31, 2004.

(2) The company granted 125,000 warrants to a consultant in connection with a non-exclusive financial consulting agreement dated February 11, 1997. The warrants are only exercisable if and when the company has an initial public offering of its common stock.

The company granted 7,500 warrants to its placement agent in connection with its 2002 private placement of its Class A Preferred Shares. 2,500 warrants have been exercised leaving a balance of 5,000.

(3) The company granted 940,000 warrants to a management consulting firm during 2004 of which 345,600 were exercised in 2004. An indeterminate number of additional warrants are issuable in the future under the company's agreement with the firm. See footnote J to the company's financial statements on page 39.

(4) The company is obligated to issue up to 12,000 warrants per annum to each nonmanagement director under its Nonmanagement Directors Plan and up to an additional 5,000 warrants per annum to the chairman of the company's audit committee. 53,000 warrants were issued in 2004. (see Note H[8])

**(e) Class A Preferred Stock**

On August 30, 2000, the company filed an amendment to its Certificate of Incorporation to increase its authorized shares to 140,000,000 and to divide such authorized shares into 100,000,000 shares of \$.01 par value preferred stock and 40,000,000 shares of \$.01 par value common stock.

Under the amendment, the Board of Directors has the authority to issue preferred stock in series and to fix the designation, relative rights, preferences and limitations applicable to each series.

On January 30, 2002, the company engaged Pittsford Capital Group as its nonexclusive agent to raise up to \$5,000,000 in capital through the sale of up to 2,000,000 shares of the company's \$.01 par value preferred stock. The Board designated the preferred stock to be issued in the fund raising effort as Class A Preferred Shares. The relative rights, preferences and limitations of the Class A Preferred Shares are as follows:

A. Number of Shares

The number of Class A Preferred Shares initially authorized is 3,300,000 Class A Preferred Shares. The initial number authorized shall be increased as required to provide Class A Preferred Shares for payment of dividends as described in Section B, distribution to holders in accordance with Section C and as described in Section F.

B. Dividends

- (i) So long as any Class A Preferred Shares are outstanding, the holders of the Class A Preferred Shares will be entitled to receive cumulative preferential dividends in the amount of \$.40 per Class A Preferred Share and no more for each annual dividend period. The annual dividend period shall commence on the first day of each March and shall end on the last day of the immediately succeeding February, which February date is referred to as the "Dividend Accrual Date".
- (ii) When and as declared by the Board, dividends payable on the Class A Preferred Shares will be paid in cash out of any funds legally available for the payment of dividends or, in the discretion of the Board, will be paid in Class A Preferred Shares at a rate of 1 Class A Preferred Share for each \$4.00 of dividends. No fractions of Class A Preferred Shares shall issue. The Company shall pay cash in lieu of paying fractions of Class A Preferred Shares on a pro rata basis.
- (iii) Dividends shall be cumulative from the date of issuance of Class A Preferred Shares, whether or not declared and whether or not, in any annual dividend period(s), there are net profits or net assets of the Company legally available for the payment of dividends.
- (iv) Accumulated and unpaid dividends on the Class A Preferred Shares will not bear interest.
- (v) So long as any Class A Preferred Shares are outstanding, the Company may not declare or pay any dividend, make any distribution, or fund, set aside or make monies available for a sinking fund for the purchase or redemption of, any shares or stock of the Company ranking junior to the Class A Preferred Shares with respect to the payment of dividends, including the \$.01 par value common stock of the Company ("Junior Stock"), unless all dividends in respect of the Class A Preferred Shares for all past annual dividend periods have been paid and such dividends for the current annual dividend period have been paid or declared and duly provided for. Subject to the foregoing, and not otherwise, the dividends (payable in cash, stock or otherwise) as may be determined by the Board, may be declared and paid on any Junior Stock from time to time out of any funds legally available therefor, and the Class A Preferred Shares will be entitled to participate in any such dividends, whether payable in cash, stock or otherwise on a pro rata basis.



### C. Liquidation Rights

- (i) In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of Class A Preferred Shares then outstanding are entitled to be paid out of the assets of the Company available for distribution to its shareholders, whether such assets are capital, surplus or earnings, before any payment or declaration and setting apart for payment of any amount in respect of any shares of any Junior Stock with respect to the payment of dividends or distribution of assets on liquidation, dissolution or winding up of the Company, all accumulated and unpaid dividends (including a prorated dividend from the last Dividend Accrual Date) in respect of any liquidation, dissolution or winding up consummated except that, notwithstanding the provisions of Section B(ii), all of such accumulated and unpaid dividends will be paid in Class A Preferred Shares at a rate of 1 Class A Preferred Share for each \$4.00 of dividends. No fractions of Class A Preferred Shares shall issue. The Company shall pay cash in lieu of paying fractions of Class A Preferred Shares on a pro rata basis.
- (ii) The Class A Preferred Shares will be entitled to participate on a pro rata basis in any distribution of assets as may be made or paid on Junior Stock upon the liquidation, dissolution or winding up of the Company.
- (iii) A consolidation or merger of the Company with or into any other corporation or corporations or any other legal entity will not be deemed to constitute a liquidation, dissolution or winding up of the Company as those terms are used in this Section C.

### D. Redemption

- (i) The Company may, in the absolute discretion of its Board, redeem at any time and from time to time from any source of funds legally available any and all of the Class A Preferred Shares at the Redemption Price.
- (ii) For each redemption, the Redemption Price for each Class A Preferred Share shall be equal to amount paid per Class A Preferred Share payable in cash, plus an amount payable (notwithstanding the provisions of Section B (ii)) in cash equal to the sum of all accumulated unpaid dividends per Class A Preferred Share (including a prorated annual dividend from the last Dividend Accrual Date) to the respective date for each redemption on which the Company shall redeem any Class A Preferred Shares (the "Redemption Date").
- (iii) In the event of a redemption of only a portion of the then outstanding Class A Preferred Shares, the Company will affect the redemption pro rata according to the number shares held by each holder of Class A Preferred Shares.
- (iv) At least 20 days and not more than 60 days prior to the date fixed by the Board for any redemption of Class A Preferred Shares, written notice (the "Redemption Notice") will be mailed, postage prepaid, to each holder of record of the Class A

Preferred Shares at his or her post office address last shown on the records of the Company. The Redemption Notice will state:

- o Whether all or less than all of the outstanding Class A Preferred Shares are to be redeemed and the total number of Class A Preferred Shares being redeemed;
  - o the number of Class A Preferred Shares held by the holder that the Company intends to redeem;
  - o the Redemption Date and Redemption Price; and
  - o that the holder is to surrender to the Company, in the manner and at the place designated in Section D(v), his or her certificate or certificates representing Class A Preferred Shares to be redeemed.
- (v) On or before the date fixed for redemption, each holder of Class A Preferred Shares must surrender the certificate or certificates representing Class A Preferred Shares to the Company, accompanied by instruments of transfer satisfactory to the Company and sufficient to transfer the Class A Preferred Shares being redeemed to the Company free and clear of any adverse interest, at the place designated in the Redemption Notice. The Redemption Price for the Class A Preferred Shares redeemed will be payable in cash on the Redemption Date to the person whose name appears on the certificate(s) as the owner of such certificate(s) as of the date of the Redemption Notice. In the event that less than all of the Class A Preferred Shares represented by any certificate(s) are redeemed, a new certificate will be issued by the Company representing the unredeemed Class A Preferred Shares to the same record owner.
- (vi) As promptly as practicable after surrender of the certificate(s) representing the redeemed Class A Preferred Shares, the Company will pay the Redemption Price to the record holder of the redeemed Class A Preferred Shares.
- (vii) Unless the Company defaults in the payment in full of the Redemption Price, the obligation of the Company to pay dividends on the Class A Preferred Shares redeemed shall cease on the Redemption Date, and the holders of the Class A Preferred Shares redeemed will cease to have any further rights with respect to such redeemed Class A Preferred Shares on the Redemption Date, other than to receive the Redemption Price.
- (viii) The holders of the Class A Preferred Shares have no right to seek or to compel redemption of the Class A Preferred Shares.

#### E. Voting Rights

The holders of Class A Preferred Shares are not be entitled to vote in any and all elections of directors and with respect to any and all other matters as to which the vote or consent of shareholders of the Company shall be required or taken.

F. Conversion Privilege

- (i) The holders of the Class A Preferred Shares have the right, at each holder's option but subject to Board approval in each case, to convert each Class A Preferred Share into 1 fully paid and nonassessable share of the \$.01 par value common stock of the Company ("Common Share") without payment of any conversion price or other consideration. Such 1 for 1 rate of conversion is subject to adjustment as set forth in F(x).
- (ii) The Conversion Privilege set forth in this Section F may not be exercised by the holder of Class A Preferred Shares until 1 year shall have elapsed from the issue date of the Class A Preferred Shares held by such holder and may not be exercised if the Board shall not have approved the actual exercise of such Conversion Privilege by such holder of Class A Preferred Shares. Such approval shall not be unreasonably withheld. Upon receipt of the Notice of Conversion described in Section F(iii) below and the Board's approval of such conversion, the Company shall give a Notice of Approval to the holder within 48 hours of the receipt of the Notice of Conversion that the exercise of the Conversion Privilege by such holder is approved.
- (iii) In order to exercise the Conversion Privilege, the holder of Class A Preferred Shares must give written notice to the Company that the holder elects to convert the number of Class A Preferred Shares as specified in the Notice of Conversion. The Notice of Conversion will also state the name(s) and address(es) in which the certificate(s) for Common Shares issuable upon the conversion are to be issued. Upon receipt of the Company's Notice of Approval, the holder of the Class A Preferred Shares must surrender the certificate(s) representing the Class A Preferred Shares being converted to the Company, accompanied by instruments of transfer satisfactory to the Company and sufficient to transfer the Class A Preferred Shares being converted to the Company free and clear of any adverse interest at the office maintained for such purpose by the Company. As promptly as practicable after the surrender of the certificate(s) representing the Class A Preferred Shares converted, the Company will issue and deliver to the holder, or to such other person designated by the holder's written order, a certificate(s) for the number of full Common Shares issuable upon the conversion of the Class A Preferred Shares in accordance with the provisions of this Section F(iii).
- (iv) The Conversion Privilege may be exercised in whole or in part and, if exercised in part, a certificate(s) will be issued for the remaining Class A Preferred Shares in any case in which fewer than all of the Class A Preferred Shares represented by a certificate(s) are converted to the same record holder of Class A Preferred Shares converted.



- (v) Each conversion will be deemed to have been effective immediately prior to the close of business on the date on which the Class A Preferred Shares will have been so surrendered as provided in Section F(iii) (the "Conversion Date") and the person(s) in whose name(s) any certificate(s) for Common Shares will be issuable upon the conversion will be deemed to have become the holder(s) of record of the Common Shares on the Conversion Date. Effective as of the Conversion Date, the Company will have no obligation to pay dividends on the Class A Preferred Shares converted provided that effective as of the Conversion Date, the Company shall pay all accumulated and unpaid dividends (including the prorated dividend from the last Dividend Accrual Date) on the Class A Preferred Shares converted, payable in the discretion of the Board, in cash out of any funds legally available for payment of such dividends or in Class A Preferred Shares.
- (vi) The Conversion Privilege shall terminate with respect to Class A Preferred Shares called for redemption by the mailing of a Redemption Notice described in Section D(iv) on the close of business on the date immediately preceding the Redemption Date.
- (vii) Notwithstanding the requirement for Board approval and the 1 year limit set forth in Section F(ii), in case of any consolidation or merger to which the Company is a party other than a merger or consolidation in which the Company is the surviving corporation or in case of any sale or conveyance to another corporation of all or substantially all of the assets of the Company or in the case of any statutory exchange of securities representing an excess of 50% of the total outstanding securities of the Company with another corporation (including any exchange effected in connection with a merger of a third corporation into the Company), the holders of Class A Preferred Shares then outstanding will have the right to convert the Class A Preferred Shares into the kind and amount of securities, cash or other property which the holder would have owned or have been entitled to receive immediately after the consolidation, merger, statutory exchange, sale or conveyance, had the Class A Preferred Shares been converted immediately prior to the effective date of the consolidation, merger, statutory exchange, sale or conveyance as the case may be.
- (viii) Notwithstanding the 1 year holding period set forth in Section F(ii), in the event the highest bid price for the Company's \$.01 par value common stock quoted on any exchange, automated quotation system or the OTC Bulletin Board on which such stock is actively traded is \$20 or more on 5 consecutive trading days, the holders of Class A Preferred Shares shall have the right to convert such Class A Preferred Shares upon Board approval.
- (ix) Common Shares delivered upon conversion of Class A Preferred Shares will be, upon delivery, validly issued, fully paid and nonassessable, free of all liens and charges and not subject to any preemptive rights.

## (x) In case the Company

- o Declares a dividend, or makes a distribution, on shares of its \$.01 par value common stock in shares of its \$.01 par value common stock; or
- o Subdivides its outstanding shares of its \$.01 par value common stock into a greater number of shares of its \$.01 par value common stock; or
- o Combines its outstanding shares of its \$.01 par value common stock into a smaller number of shares of \$.01 par value common stock,

the number of Common Shares issuable upon the conversion of the Class A Preferred Shares shall be adjusted at the time of the record date for the dividend or distribution or the effective date of the subdivision or a combination so that after such record or effective date, the holder of Class A Preferred Shares will be entitled to receive the same percentage of ownership of the Company's \$.01 par value common stock as such holder would have been entitled to receive immediately prior to such record or effective date.

Pursuant to the offering, the company sold 38,500 Class A Preferred Shares for aggregate proceeds of \$154,000. The offering terminated on July 31, 2002.

Additional shares of Class A Preferred have been sold from time to time in a number of private placements. In 2003, 15,687 shares were sold to a private investor. On March 19, 2004 the company sold 62,500 Class A Preferred Shares to each of three shareholders for \$250,000 per investor. The company also sold 50,575 Class A Preferred Shares to a shareholder for \$202,300 at various times in 2004.

During 2004, Class A Preferred holders converted 38,500 Class A Preferred into 38,500 common shares and received dividends of 8,031 Class A Preferred upon conversion. In 2005, these shares issued as dividends were converted into 2,550 common shares.

## Subsequent Event

In March, 2005, the company sold an additional 47,500 Class A Preferred to the same shareholder for aggregate proceeds of \$190,000.

**(f) Class B Preferred Stock**

On October 19, 2004, the company incorporated Iso-Torque Corporation in order to commercialize its Iso-Torque™ technology.

In September, 2004, the company created a new series of preferred stock-Class B Non-Voting, Cumulative Convertible Preferred Stock ("Class B Preferred") to fund the business operations of Iso-Torque Corporation. The company authorized 300,000 Class B Preferred, has sold 42,500 shares and received proceeds of \$212,500 based upon a selling price of \$5.00 per share.

The designation, relative rights, preferences and limitations of the Class B Preferred, as fixed by the Board of Directors, are as follows:

- A. Three hundred thousand (300,000) authorized preferred shares of the par value of \$.01 each as fixed by the Board of Directors, none of which has been issued, shall be issued in and as a series to be designated Class B Non-Voting Cumulative Convertible Preferred Shares, \$.01 par value. Said series is hereinafter called "Class B Preferred Shares". The term preferred shares as used herein shall include all 100,000,000 of the preferred shares, \$.01 par value authorized by the Certificate of Incorporation of the Corporation of which Class B Preferred Shares is the second series.
- B. (1) So long as any Class B Preferred Shares are outstanding, the holders of the Class B Preferred Shares will be entitled to receive cumulative preferential dividends in the amount of \$.50 per Class B Preferred Share and no more for each annual dividend period. The annual dividend period shall commence on the first day of each September and shall end on the last day of the immediately succeeding August, which August date is referred to as the "Dividend Accrual Date".
- (2) When and as declared by the Board, dividends payable on the Class B Preferred Shares will be paid in cash out of any funds legally available for the payment of dividends or, in the discretion of the Board, will be paid in Class B Preferred Shares at a rate of 1 Class B Preferred Shares for each \$5.00 of dividends. No fractions of Class B Preferred Shares shall be issued. The Corporation shall pay cash in lieu of paying fractions of Class B Preferred Shares on a pro rata basis.
- (3) Dividends shall be cumulative from the date of issuance of Class B Preferred Shares, whether or not declared and whether or not, in any annual dividend period(s), there are net profits or net assets of the Corporation legally available for the payment of dividends.
- (4) Accumulated and unpaid dividends on the Class B Preferred Shares will not bear interest.
- (5) So long as any Class B Preferred Shares are outstanding, the Corporation may not declare or pay any dividend, make any distribution, or fund, set aside or make monies available for a sinking fund for the purchase or redemption of any shares or stock of the Corporation ranking junior to the Class B Preferred Shares with respect to the payment of dividends, including the \$.01 par value common stock of the Class B Preferred Shares for all past annual dividend periods have been paid and such dividends for the current annual dividend period have been paid or declared and duly provided for. Subject to the foregoing, and not otherwise, the dividends (payable in cash, stock or otherwise) as may be determined by the Board, may be declared and paid on any Junior Stock from time to time out of any funds legally available therefore, and the Class B Preferred Shares will be entitled to participate in any such dividends, whether payable in cash, stock or otherwise, on a pro rata basis.
- C. The Class B Preferred Shares shall rank junior and be classified as Junior Stock with respect to the Corporation's Class A Preferred Shares in all respects.
- D. (1) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of Class B Preferred Shares then outstanding are entitled to be paid out of the assets of the Corporation available for distribution to its shareholders, whether such assets are capital, surplus or earnings, before any payment or declaration

and setting apart for payment of any amount in respect of any shares of any Junior stock with respect to the payment of dividends or distribution of assets on liquidation, dissolution or winding up of the Corporation, all accumulated and unpaid dividends (including a prorated dividend from the last Dividend Accrual Date) in respect of any liquidation, dissolution or winding up consummated except that, notwithstanding the provisions of Section B(2), all of such accumulated and unpaid dividends will be paid in Class B Preferred Shares at a rate of 1 Class B Preferred Share for each \$5.00 of dividends. No fractions of Class B Preferred Shares shall be issued. The Corporation shall pay cash in lieu of paying fractions of Class B Preferred Shares on a pro rata basis.

(2) The Class B Preferred Shares will be entitled to participate on a pro rata basis in any distribution of assets as may be made or paid on Junior Stock upon the liquidation, dissolution or winding up of the Corporation.

- E. (1) The Corporation may in the absolute discretion of its Board, redeem at any time and from time to time from any source of funds legally available any and all of the Class B Preferred Shares at the Redemption Price.
- (2) For each redemption, the Redemption Price for each Class B Preferred Share shall be equal to the sum of \$5.00 per Class B Preferred Share payable- in cash, plus an amount payable (not withstanding the provisions of Section B(2) in cash equal to the sum of all accumulated unpaid dividends per Class B Preferred Share (including a prorated annual dividend from the last Dividend Accrual Date) to the respective date for each redemption on which the Corporation shall redeem any Class B Preferred Shares (the "Redemption Date").
- (3) In the event of a redemption of only a portion of the then outstanding Class B Preferred Shares, the Corporation will affect the redemption pro rata according to the number shares held by each holder of Class B Preferred Shares.
- (4) Unless the Corporation defaults in the payment in full of the Redemption Price, the obligation of the Corporation to pay dividends on the Class B Preferred Shares redeemed shall cease on the Redemption Date, and the holders of the Class B Preferred Shares redeemed will cease to have any further rights with respect to such redeemed Class B Preferred Shares on the Redemption Date, other than to receive the Redemption Price.
- (5) The holders of the Class B Preferred Shares have no right to seek or to compel redemption of the Class B Preferred Shares.
- F. The holders of Class B Preferred Shares are not to be entitled to vote in any and all elections of directors and with respect to any and all other -matters as to which the vote or consent of shareholders of the Corporation shall be required or taken.
- G. (1) The holders of the Class B Preferred Shares have the right, at each holder's option but subject to Board approval in each case, to (i) convert each Class B Preferred Share into 1 fully paid and nonassessable share of the \$.01 par value common stock of the Corporation ("Torvec Common") without payment of any conversion price or other consideration. Such 1 for 1 rate of conversion is subject to adjustment as set forth in Section G(10); (ii) convert each Class B Preferred Share into 1 fully paid and

nonassessable share of the \$.01 par value common stock of Iso-Torque Corporation ("Iso-Torque Common") without payment of any conversion price or other consideration upon the happening of any of the following events:

- (a) the effectiveness of a registration statement as filed with the Securities and Exchange Commission pursuant to and under the Securities Act of 1933 with respect to an initial public offering of Iso-Torque Common; or
- (b) the effectiveness of a registration statement as filed with the Securities and Exchange Commission pursuant to and under the Securities Exchange Act of 1934 with respect to an initial trading of Iso-Torque Common on a national exchange, the NASDAQ or the OTCBB; or
- (c) notwithstanding the 1 year holding period set forth in Section G(2) the execution of a definitive agreement for the sale, transfer and/or exchange of all of the issued and outstanding Iso-Torque Common to a third party purchaser of such stock or by any of a business combination of Iso-Torque Corporation with an unrelated entity, other than a merger or consolidation in which Iso-Torque Corporation is the surviving corporation.

(2) The Conversion Privilege set forth in this Section G may not be exercised by the holder of Class B Preferred Shares until 1 year shall have elapsed from the issue date of the Class B Preferred Shares held by such holder and may not be exercised if the Board shall not have approved the actual exercise of such Conversion Privilege by such holder of Class B Preferred Shares. Such approval shall not be unreasonably withheld. Upon receipt of the Notice of Conversion and the Board's approval of such conversion, the Corporation shall give a Notice of Approval to the holder within, 48 hours of the receipt of the Notice of Conversion that the exercise of the Conversion Privilege by such holder is approved.

(3) The Conversion Privilege may be exercised in whole or in part and, if exercised in part, a certificate(s) will be issued for the remaining Class B Preferred Shares in any case in which fewer than all of the Class B Preferred Shares represented by a certificate(s) are converted to the same record holder of Class B Preferred Shares converted.

(4) Each conversion will be deemed to have been effective immediately prior to the close of business on the date on which the Class B Preferred Shares will have been so surrendered (the "Conversion Date") and the person(s) in whose name(s) any certificate(s) for Torvec Common or Iso-Torque Common will be issuable upon the conversion will be deemed to have become the holder(s) of record of the Torvec Common or Iso-Torque Common on the Conversion Date. Effective as of the Conversion Date, the Corporation will have no obligation to pay dividends on the Class B Preferred Shares converted provided that effective as of the Conversion Date, the Corporation shall pay all accumulated and unpaid dividends (including the prorated dividend from the last Dividend Accrual Date) on the Class B Preferred Shares converted, payable in the discretion of the Board, in cash out of any funds legally available for payment of such dividends or in Class B Preferred Shares.

(5) The Conversion Privilege shall terminate with respect to Class B

Preferred Shares called for redemption by the mailing of a Redemption Notice on the close of business on the date immediately preceding the Redemption Date.

(6) Notwithstanding the requirement for Board approval and the 1 year limit set forth in Section G(2), in case of any consolidation or merger to which the Corporation is a party other than a merger or consolidation in which the Corporation is the surviving corporation or in case of any sale or conveyance to another corporation of all or substantially all of the assets of the Corporation or in the case of any statutory exchange of securities representing an excess of 50% of the total outstanding securities of the Corporation with another corporation (including any exchange effected in connection with a merger of a third corporation into the Corporation), the holders of Class B Preferred Shares then outstanding will have the right to convert the Class B Preferred Shares into the kind and amount of securities, cash or other property which the holder would have owned or have been entitled to receive immediately after the consolidation, merger, statutory exchange, sale or conveyance, had the Class B Preferred Shares been converted immediately prior to the effective date of the consolidation, merger, statutory exchange, sale or conveyance as the case may be.

(7) Notwithstanding the 1 year holding period set forth in Section G(2), in the event the highest bid price for the Corporation's \$.01 par value common Stock quoted on any exchange, automated quotation system or the OTC Bulletin Board on which such Stock is actively traded is \$20 or more on 5 consecutive trading days, the holders of Class B Preferred Shares shall have the right to convert such Class B Preferred Shares upon Board approval for such conversion period.

(8) Torvec Common or Iso-Torque Common delivered upon conversion of Class B Preferred Shares will be, upon delivery, validly issued, fully paid and nonassessable, free of all liens and charges and not subject to any preemptive rights.

(9) In case the Corporation

- (a) declares a dividend, or makes a distribution, on shares of its \$.01 par value common stock in shares of its \$.01 par value common stock; or
- (b) subdivides its outstanding shares of its \$.01 par value common stock into a greater number of shares of its \$.01 par value common stock; or
- (c) combines its outstanding shares of its \$.01 par value common stock into a smaller number of shares of \$.01 par value common stock,

the number of Torvec Common issuable upon the conversion of the Class B Preferred Shares shall be adjusted at the time of the record date for the dividend or distribution or the effective date of the subdivision or a combination so that after such record or effective date, the holder of Class B Preferred Shares will be entitled to receive the same percentage of ownership of the Corporation's \$.01 par value common stock as such holder would have been entitled to receive immediately prior to such record or effective date."

**(g) Reports to Shareholders**

The company furnishes its shareholders with an annual report containing audited financial statements and such other periodic reports as the Company may determine to be appropriate or as may be required by law. The company complies with periodic reporting, proxy solicitation and certain other requirements of the Securities Exchange Act of 1934.

**(h) Transfer Agent and Registrar**

Continental Stock Transfer & Trust Company has been appointed as the company's Transfer Agent and Registrar for its common stock and for its preferred stock.

**Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.****(a) Overall Business Strategy**

The company's overall business strategy relating to the commercialization of its technologies is:

- o to license or sell any one or all of our technologies (i.e. the infinitely variable transmission, the hydraulic pump/motor system, the Iso-Torque™ differential, the spherical gearing constant velocity joint mechanism, the ice technology) in order to provide the capital management believes is necessary to successfully implement its stated goal to manufacture and market its FTV™ worldwide, especially in the Asian, African, South and Central American, and Eastern European markets.

The company's plan of operation relative to its automotive inventions during fiscal 2005 is:

- o to continue in collaboration with CXO on the GO, LLC, to develop, refine and implement the company's overall strategy described above by soliciting indications of interest from first-tier suppliers and/or automotive OEMs to license and/or purchase one or more of our technologies;
- o to complete the EPA city testing of our infinitely variable transmission in a gasoline powered Tahoe;
- o to build an infinitely variable transmission to enable us to enter into one or more joint ventures with strategic partners to offer complete diesel drive-train units to the U.S. military and for use in commercial vehicles, including Class 3 trucks and school buses;
- o to compete with our FTV™ in the 2005 Grand Challenge sponsored by the Defense Advance Research Project Agency (DARPA), the central research and development organization of the U.S. Department of Defense;
- o to build one or more Iso-Torque™ prototypes to showcase to automotive companies and first-tier suppliers;
- o to continue to improve the company's inventions and, where appropriate, to obtain patent protection on such new improvements.

The company's website is [www.torvec.com](http://www.torvec.com), and information regarding the company and all of its inventions can be found on such website.

The company's overall business strategy relating to its ice technology is to

- o to continue our development efforts necessary to position the ice technology for sale or license to one or more candidates, whether domestic or foreign;
- o to license or sell the ice technology.

The company's ice technology is held through its majority-owned subsidiary, Ice Surface Development, Inc. Our subsidiary has made significant progress in identifying three distinct methods for de-icing -- electrolysis, high frequency and pulse. It is currently developing with a joint venture partner a coating process designed to enable microcircuitry to be applied to glass surfaces without visual distortion. Our subsidiary is actively seeking a partner in the power supply field to assist it develop an industry-acceptable power supply for the ice technology.

The company's license agreement with Dartmouth provides for a royalty of 3.5% based on the value of net sales of licensed product with minimum annual payments of \$10,000 for the first two years, \$15,000 for the third year and \$25,000 per year thereafter. In addition, the agreement provides for the payment of 50% of sub-license fee income.

**(b) Current Status of Product Development**

Based upon our experience and research to date, we believe the following inventions will eventually become commercially viable:

- o the FTV™, including the steering drive and suspension for tracked vehicles;
- o the Iso-Torque™ differential;
- o the infinitely variable transmission;
- o the hydraulic pump and motor;
- o spherical gearing constant velocity mechanism;
- o the ice technology.

These inventions are in the following stages of development.

- o The Iso-Torque™ differential - patent protection for this invention was issued July 8, 2004. Through our wholly-owned subsidiary, Iso-Torque Corporation, we anticipate building one or more prototype Iso-Torques and expect to showcase the new differential to the military as well as automotive, truck, and bus manufacturers and first-tier suppliers.
- o The infinitely variable transmission - the prototype which incorporates our hydraulic pump and motor, was installed in a 2003 Dodge Ram 3/4 ton 4x4 quad cab pickup truck, using an electronically controlled 2004 emissions compliant Cummins turbo-diesel engine. In the fall of 2003, we successfully completed tests which demonstrated that the truck generated:
  - a 96% improvement in fuel mileage over that obtained by a gasoline-powered, 4-speed automatic 4x4 truck of comparable weight and horsepower to the most popular SUVs;
  - a 38.5% improvement in fuel efficiency over a same-model Dodge 4x4 diesel truck with 4-speed automatic, and



- a 28.5% improvement in fuel efficiency over a same-model Dodge 4x4 diesel truck with a manual transmission.

The company's tests conducted under the supervision of personnel at the U.S. Environmental Protection Agency's National Vehicle and Fuel Emissions Laboratory, Ann Arbor, Michigan in late May, 2004 demonstrated that our 12.2 cubic inch displacement hydraulic pump achieved significant efficiencies operating at 300 to 700 revolutions per minute (rpm) and 200 to 1,400 pounds per square inch (psi). These results confirmed that a fully-loaded vehicle, such as an SUV, equipped with our hydraulic pump/motor system (which is the heart of the IVT) will be capable of achieving city-driving start-up speeds in excess of 20 mph at between 700-750 rpm while the same SUV, equipped with an automatic transmission incorporating a torque converter, would only be idling at the same rpm, requiring approximately 2500 rpm to attain a speed of 20 mph from start-up. The lower the rpm, the greater the fuel savings. The greater the fuel savings, the less fuel emissions. Since approximately 85% of U.S. produced vehicles have automatic transmissions and torque converters and since, according to EPA statistics, over 60% of all driving occurs in city conditions, the company believes that the evidence gathered at the EPA confirms its long-held view that the adoption of its IVT by the automotive industry will result in very significant fuel savings, both diesel and gasoline, as well as fewer emissions. We believe that it will be possible for gasoline powered vehicles equipped with our IVT to achieve in city driving approximately the same mpg as is currently achieved by those vehicles during highway operation.

We have installed the infinitely variable transmission in a 2004 gasoline-fueled Tahoe and are performing EPA city driving and other tests (some of which were suggested by auto manufacturers). The tests compare, among other items, the fuel efficiencies generated by the Tahoe running on a Mustang dynamometer equipped with the OEM automatic transmission (the "baseline tests") as against the same Tahoe running on the same dynamometer equipped with the company's infinitely variable transmission.

The company is conducting these tests using our own custom designed electronic engine control unit.

We are also in the process of building another infinitely variable transmission to enable our subsidiary, IVT Diesel Corp., to enter into one or more joint ventures with strategic partners to offer complete diesel drive-train units to the U.S. military and for use in commercial vehicles, including Class 3 trucks and school buses. We expect that the diesel drive-train units offered will be loaded with technology driven features which will significantly improve performance in the recipient vehicles. The combined technological improvements should result in fuel savings, lower environmental emissions, increased driving performance, enhanced safety and greater reliability and durability.

- o Through our wholly-owned subsidiary IVT Diesel Corp., we have entered the FTV™ in the 2005 Grand Challenge sponsored by the Defense Advance Research Project Agency (DARPA), the central research and development organization of the U.S. Department of Defense. The purpose of the DARPA Grand Challenge is to develop a fully autonomous (not remote controlled) vehicle needed by the U.S. military in the war against terror. The Challenge supports the Congressional mandate that 30% of all U.S. military vehicles be capable of autonomous navigation by 2015.

The 2005 DARPA Grand Challenge is a cooperative effort of IVT Diesel Corp., MotoTron (a subsidiary of Brunswick Corporation) and Traxen Corporation. MotoTron will provide the vehicle control system and suitable application support while Traxen will provide the sensor fusion software, obstacle detection components and appropriate application support for integration with the command and control systems.

The 2005 Grand Challenge will be held on October 8, 2005 in the desert Southwest. The team (and there were 195 entrants as of the February 11, 2005 deadline) that develops an autonomous ground vehicle that finishes the designated route most quickly within 10 hours will receive \$2

million. The route will be no more than 175 miles over desert terrain featuring natural and manmade obstacles. The exact route will not be revealed until 2 hours before the event begins.

Teams must qualify in order to participate in the actual October 8, 2005 Challenge Event. The first step is submission of a video demonstration by March 11, 2005 to determine which teams advance to the Site Visit. The evaluation conducted at the Site Visit (to be held May 2-21, 2005) determines the teams eligible for entry to the National Qualification Event (September 28-October 6, 2005) at which final participants are determined. Of the 195 entrants, DARPA will select 40 as semifinalists for the NQE event and 20 finalists for the Challenge itself.

- o The constant velocity joint - the prototype is complete and is ready for comprehensive tests. A partner is being sought to further commercialization.

On June 29, 2000, the company announced that it had granted an exclusive, world-wide license of all its automotive technology to Variable Gear, LLC for the aeronautical and marine markets. Variable Gear will pay the company 4% royalties for 7 years after which the company is obligated to repurchase the license. Variable Gear is owned 51% by Robert C. Horton, Chairman and CEO of Ultrafab, Inc. and a company shareholder. The Company owns the remaining 49%. The company does not share in any profit or losses in this entity. Variable Gear to date has not commenced operations or sublicensed our automotive technology in its markets.

#### **(c) Company Expenses**

The net loss for the year ended December 31, 2004 was \$9,805,000 as compared to the year ended December 31, 2003 net loss of \$2,927,000. The increase in the net loss of \$6,878,000 is principally related to increases in general and administrative expense.

Research and development expenses for the year ended December 31, 2004 amounted to \$2,165,000 as compared to \$1,839,000 for the year ended December 31, 2003. This increase amounted to \$326,000. This increase is attributable to increased costs associated with commercializing our technologies.

General and administrative expenses for the year ended December 31, 2004 amounted to \$7,932,000 as compared to \$1,501,000 for the year ended December 31, 2003. This increase amounted to \$6,431,000 and is principally due to the costs associated with warrants issued to our management consulting firm.

#### **(d) Liquidity And Capital Resources**

The company's business activities during its fiscal year ended December 31, 2004 were funded through the sale of 60,000 common shares to a major shareholder for \$301,000, the sale of 235,770 Class A Preferred Shares for approximately \$943,000 and the sale of 42,500 Class B Preferred Shares for \$212,000.

During the fiscal year ended December 31, 2004, the company issued 469,883 shares to business consultants under its Business Consultants Stock Plan in exchange for ongoing corporate legal services, internal accounting services, business advisory services as well as legal fees and associated expenses for ongoing patent work and litigation. As of December 31, 2004 there are 1,886,168 shares available for future grants under the plan.

James and Keith Gleasman have developed a working arrangement with the company that assures the company with continued access to the Gleasmans' expertise without unduly burdening the company's financial statements with the continuing expense of consulting fees. Under this arrangement, James and Keith Gleasman will continue to provide consulting services and assign new patents, existing patent improvements and all know-how in connection with all their inventions to the company. In addition, Keith Gleasman will continue to serve as President and as a director and James Gleasman will continue to serve as Chief Strategist, Investor Relations and as a director.

For calendar 2005, each of the Gleasmans intends to sell, from his own personal holdings of Torvec, an average of approximately 500 common shares daily at prevailing market prices at the time of sale. The total number

of shares sold under this plan, if all shares are sold, represents approximately 2% of the current Gleasman family holdings.

At December 31, 2004, the company's cash position was \$574,000, and the company had a working capital deficiency of \$1,090,000. The company's cash position at anytime during the fiscal year ended December 31, 2004 was directly dependent upon its success in selling stock since the company did not generate any revenues. The company does not know whether it will generate revenues from its business activities during fiscal year 2005.

At December 31, 2004, the company had accounts payable and accrued expenses of \$1,785,000.

The company has an obligation to repurchase 51% of Variable Gear, LLC on January 1, 2008. The purchase price is equal to 51% of the then value of Variable Gear as determined by an independent appraiser selected by the parties. This liability can not be estimated at this time. We believe that a combination of cash flows from operations, financing and strategic alliances will produce sufficient cash flow to fund this obligation.

**(e) Subsequent Event**

On March 16, 2005, and March 25, 2005 a shareholder purchased an aggregate 47,500 Class A Preferred Shares for \$190,000.

**(f) Critical Accounting Policies**

Revenue Recognition

Revenue in connection with the granting of the license to Variable Gear, LLC is to be recognized when all conditions for earning such fee is complete. Generally, revenue is only recorded when no future performance is required related to the item.

Impairment of Long-Lived Assets

The Company has adopted SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." Accordingly, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable, management assesses the recoverability of the assets. Management is also required to evaluate the useful lives each reporting period. When events or circumstances indicate, our long-lived assets, including intangible assets with finite useful lives, are tested for impairment by using the estimated future cash flows directly associated with, and that are expected to arise as a direct result of, the use of the assets. If the carrying amount exceeds the estimated undiscounted cash flows, an impairment may be indicated. The carrying amount is then compared to the estimated discounted cash flows, and if there is an excess, such amount is recorded as an impairment.

**(g) Impact of Inflation**

Inflation has not had a significant impact on the company's operations to date and management is currently unable to determine the extent inflation may impact the company's operations during its fiscal year ending December 31, 2004.

**(h) Quarterly Fluctuations**

As of December 31, 2004, the company had not engaged in revenue producing operations. Once the company actually commences significant revenue producing operations, the company's operating results may fluctuate significantly from period to period as a result of a variety of factors, including purchasing patterns of consumers, the length of the company's sales cycle to key customers and distributors, the timing of the introduction of new products and product enhancements by the company and its competitors, technological factors, variations in sales by product and distribution channel, product returns, and competitive pricing. Consequently, once the company actually commences significant revenue producing operations, the company's product revenues may vary significantly by quarter and the company's operating results may experience significant fluctuations.

**TORVEC, INC.**  
**(a development stage company)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**TORVEC, INC. AND SUBSIDIARIES**  
(a development stage company)

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders  
Torvec, Inc.

We have audited the accompanying consolidated balance sheet of Torvec, Inc. (a development stage company), and its subsidiaries as of December 31, 2004, and the related consolidated statements of operations and cash flows for each of the years in the two-year period ended December 31, 2004 and for the period from September 25, 1996 (inception) through December 31, 2004 and changes in stockholders' equity (deficit) for the periods from September 25, 1996 (inception) through December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of Torvec, Inc. and subsidiaries as of December 31, 2004, and the consolidated results of their operations and their consolidated cash flows for each of the years in the two-year period ended December 31, 2004 and for the period from September 25, 1996 (inception) through December 31, 2004, in conformity with U.S. generally accepted accounting principles.

Eisner LLP

New York, New York  
March 30, 2005

With respect to Note A  
April 5, 2005

**TORVEC, INC. AND SUBSIDIARIES**  
(a development stage company)

**Consolidated Balance Sheet**  
**December 31, 2004**

**ASSETS**

Current assets:

Cash	\$ 574,000
Prepaid expenses	<u>149,000</u>
Total current assets	<u>723,000</u>

Property and Equipment:

Office equipment	27,000
Shop equipment	79,000
Leasehold improvements	3,000
Transportation equipment	<u>95,000</u>

204,000

Less accumulated depreciation and amortization	<u>77,000</u>
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Net property and equipment	<u>127,000</u>
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Other Assets:

License, less accumulated amortization of \$692,000	2,568,000
Deposits	<u>2,000</u>

Total Other Assets	<u>2,570,000</u>
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\$ 3,420,000

**LIABILITIES**

Current liabilities:

Accounts payable	\$ 290,000
Accrued liabilities	1,495,000
Loans payable to stockholders and officers	<u>28,000</u>

Total current liabilities	1,813,000
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Deferred revenue	<u>150,000</u>
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Total liabilities	<u>1,963,000</u>
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Minority interest	<u>281,000</u>
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Commitments and other matters

**STOCKHOLDERS' EQUITY**

Preferred stock, \$.01 par value, 100,000,000 shares authorized

3,300,000 designated as Class A Non-voting cumulative dividend \$.40 per share, convertible preferred, 259,243 shares issued and outstanding (liquidation preference \$1,150,063)	3,000
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300,000 designated as Class B Non-voting cumulative dividend \$.50 per share,  
convertible preferred, 42,500 shares issued and outstanding (liquidation preference \$218,181)  
Common stock, \$.01 par value, 40,000,000 shares authorized, 29,043,654 issued and  
outstanding

290,000

Additional paid-in capital	32,761,000
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Due from stockholders	(3,000)
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Deficit accumulated during the development stage	<u>(31,875,000)</u>
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1,176,000

\$ 3,420,000

*See notes to consolidated financial statements*

TORVEC, INC. AND SUBSIDIARIES  
(a development stage company)

Consolidated Statements of Operations

	Year Ended December 31,		September 25, 1996 (Inception) Through December 31,
	2004	2003	2004
<b>Revenue</b>	\$ -	\$ -	\$ -
<b>Cost and expenses:</b>			
Research and development	2,165,000	1,839,000	10,058,000
General and administrative	<u>7,932,000</u>	<u>1,501,000</u>	<u>22,808,000</u>
<b>Loss before minority interest</b>	(10,097,000)	(3,340,000)	(32,866,000)
Minority interest in loss of consolidated subsidiary	<u>292,000</u>	<u>413,000</u>	<u>991,000</u>
<b>Net loss</b>	(9,805,000)	(2,927,000)	(31,875,000)
Preferred Stock beneficial conversion feature	556,000		556,000
Preferred stock dividend	<u>91,000</u>	<u>16,000</u>	<u>119,000</u>
<b>Net loss attributable to common stockholders</b>	<u><u>\$(10,452,000)</u></u>	<u><u>\$(2,943,000)</u></u>	<u><u>\$(32,550,000)</u></u>
<b>Basic and diluted net loss attributable to common stockholders per share</b>	<u><u>\$(0.37)</u></u>	<u><u>\$(0.11)</u></u>	
<b>Weighted average number of shares of common stock - basic and diluted</b>	<u><u>28,515,000</u></u>	<u><u>26,836,000</u></u>	



TORVEC, INC. AND SUBSIDIARIES  
(a development stage company)

Consolidated Statements of Changes in Stockholders' Equity (Capital Deficit)  
For the Period from September 25, 1996 (Inception) through December 31, 2004

	Class A Preferred Stock		Class B Preferred Stock		Common Stock		Additional	Due	Unearned	Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	From Stockholders	Compensatory Stock and Options	Accumulated During the Development Stage	Stockholders' Equity
Issuance of shares to founders					16,464,400	\$ 165,000	\$ (165,000)	\$			\$ 0
Issuance of stock for services					2,535,600	25,000	381,000				406,000
Sale of common stock - November (\$1.50 per share)					64,600	1,000	96,000				97,000
Sale of common stock - December (\$1.50 per share)					156,201	1,000	233,000				234,000
Distribution to founders							(27,000)				(27,000)
Net loss										\$ (489,000)	(489,000)
Balance - December 31, 1996					19,220,801	192,000	518,000			(489,000)	221,000
Issuance of compensatory stock					1,000,000	10,000	1,490,000		\$ (1,500,000)		0
Issuance of stock for services					12,000		18,000				18,000
Sale of common stock - January (\$1.50 per share)					58,266	1,000	86,000				87,000
Sale of common stock - February (\$1.50 per share)					75,361	1,000	112,000				113,000
Sale of common stock - May (\$1.50 per share)					30,000		45,000				45,000
Issuance of stock for services					2,000		6,000				6,000
Sale of common stock - June (\$3.00 per share)					73,166	1,000	219,000				220,000
Sale of common stock - July (\$3.00 per share)					13,335		40,000				40,000
Sale of common stock - August (\$3.00 per share)					60,567	1,000	181,000				182,000
Sale of common stock - September (\$3.00 per share)					10,000		30,000				30,000
Sale of common stock - October (\$3.00 per share)					7,000		21,000				21,000
Sale of common stock - November (\$3.00 per share)					10,000		30,000				30,000
Sale of common stock - December (\$3.00 per share)					100,000	1,000	299,000				300,000
Issuance of compensatory options to consultants							234,000		(234,000)		0
Compensatory stock and options earned									451,000		451,000
Distributions to founders							(338,000)				(338,000)
Net loss										(922,000)	(922,000)
Balance - December 31, 1997					20,672,496	207,000	2,991,000		(1,283,000)	(1,411,000)	504,000
Issuance of stock for services					1,000		3,000				3,000
Sale of common stock - May 11 to September 20 (\$5.00 per share)					112,620	1,000	562,000				563,000
Sale of common stock - September 21 to December 31 (\$10.00 per share)					25,500		255,000				255,000
Costs of offering							(60,000)				(60,000)
Compensatory stock and options earned									578,000		578,000
Contribution of services							15,000				15,000
Net loss										(2,122,000)	(2,122,000)
Balance - December 31, 1998					20,811,616	208,000	3,766,000		(705,000)	(3,533,000)	(264,000)
Issuance of stock for services					45,351		327,000				327,000
Sale of common stock - January 1 to August 9 (\$10.00 per share)					80,670	1,000	806,000				807,000
Sale of common stock - August 10 to November 30 (\$5.00 per share)					84,500	1,000	422,000				423,000
Issuance of compensatory options to consultants							2,780,000		(2,780,000)		0
Common stock issued- exercise of options					21,000		105,000				105,000
Compensatory stock and options earned									3,050,000		3,050,000
Contribution of services							15,000				15,000
Net loss										(4,788,000)	(4,788,000)
Balance - December 31, 1999					21,043,137	210,000	8,221,000	\$	(435,000)	(8,321,000)	(325,000)

See notes to consolidated financial statements.



**TORVEC, INC. AND SUBSIDIARIES**  
(a development stage company)

**Consolidated Statements of Changes in Stockholders' Equity (Capital Deficit)**  
**For the Period from September 25, 1996 (Inception) through December 31, 2004**  
**(continued)**

	Class A Preferred Stock		Class B Preferred Stock		Common Stock		Additional Paid-in	Due from	Unearned Compensatory Stock and Options	Deficit Accumulated During the Development Stage	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Stockholders			
Issuance of stock for services					196,259	\$ 2,000	\$ 838,000	\$			\$ 840,000
Sale of common stock - March 29 (\$4.51 per share)					44,321		200,000				200,000
Sale of common stock - June 23 (\$3.50 per share)					100,000	1,000	349,000				350,000
Acquisition of Ice Surface Development					1,068,354	11,000	3,394,000				3,405,000
Proceeds from exercise of put option					36,735	1,000	108,000				109,000
Compensatory stock and options earned									\$ 435,000		435,000
Contribution of services							15,000				15,000
Net loss										\$ (2,374,000)	(2,374,000)
<b>Balance - December 31, 2000</b>					22,488,806	225,000	13,125,000		0	(10,695,000)	2,655,000
Issuance of stock for liabilities					126,667	1,000	664,000				665,000
Issuance of stock for services					361,100	4,000	1,007,000				1,011,000
Issuance of option to consultant for services							398,000				398,000
Proceeds from exercise of put option					101,910	1,000	323,000				324,000
Contribution of services							15,000				15,000
Net loss										(3,871,000)	(3,871,000)
<b>Balance - December 31, 2001</b>					23,078,483	231,000	15,532,000		0	(14,566,000)	1,197,000
Exercise of warrants					124,448	1,000	126,000				127,000
Exercise of warrants					250,000	3,000	72,000				75,000
Loss on sale of minority interest							(232,000)				(232,000)
Sale of preferred stock and warrant	38,500						142,000				142,000
Issuance of stock for services					1,001,454	10,000	1,224,000				1,234,000
Issuance of options in settlement of liabilities and consulting fees							653,000				653,000
Issuance of warrants to chairman							690,000				690,000
Proceeds from exercise of put option (\$.90 per share)					440,000	5,000	391,000				396,000
Common stock issued in exchange for loan					35,461		50,000				50,000
Sale of common stock - July (\$1.45 per share)					46,897		68,000				68,000
Sale of common stock - August (\$1.42 per share)					211,265	2,000	298,000				300,000
Sale of common stock - September (\$1.42 per share)					140,845	1,000	199,000				200,000
Sale of common stock - December (\$.91 per share)					109,890	1,000	99,000				100,000
Contribution of services							15,000				15,000
Issuance of warrant for financial services							8,000				8,000
Warrant issued in lieu of compensation							633,000				633,000
Issuance of shares in settlement of liabilities					190,965	2,000	267,000				269,000
Compensatory stock options							32,000				32,000
Employees/Stockholders Contribution of services in subsidiary							519,000				519,000
Net loss										(4,577,000)	(4,577,000)
<b>Balance - December 31, 2002</b>	<b>38,500</b>	<b>0</b>			<b>25,629,708</b>	<b>\$ 256,000</b>	<b>\$ 20,786,000</b>	<b>\$</b>	<b>\$ 0</b>	<b>\$ (19,143,000)</b>	<b>\$ 1,899,000</b>

See notes to consolidated financial statements.

TORVEC, INC. AND SUBSIDIARIES  
(a development stage company)

Consolidated Statements of Changes in Stockholders' Equity (Capital Deficit)  
For the Period from September 25, 1996 (Inception) through December 31, 2004  
(continued)

	Class A Preferred Stock		Class B Preferred Stock		Common Stock		Additional	Due	Unearned	Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in	from	Compensatory	Accumulated	Stockholders'
							Capital	Stockholders	Stockholders	During the	Equity
									Options	Development	Stage
Sale of Common Stock - March (\$0.90 per share)					111,112	1,000	\$ 99,000	\$	\$		\$ 100,000
Sale of Common Stock - June (0.80 per share)					250,000	3,000	197,000				200,000
Sale of Common Stock - September (\$2.50 per share)					8,000		20,000				20,000
Advance settled with Common Stock - October (\$2.50 per share)					10,000		25,000				25,000
Exercise of warrant for common stock - (December \$0.50 per share)					250,000	2,000	123,000				125,000
Issuance of stock for services					753,824	8,000	842,000				850,000
Exercise of Warrants for \$.01 per share					130,000	1,000	(1,000)				-
Exercise of Warrants for \$.01 per share					50,000	1,000	(1,000)				-
Exercise of Warrants for \$.01 per share					8,680						-
Exercise of Warrants for \$.01 per share					2,500						
Cashless exercise of put option					654,432	7,000	(7,000)				-
Sale of Class A Preferred Stock - September (\$4.00 per share)	5,575						22,000				22,000
Sale of Class A Preferred Stock - December (\$4.00 per share)	10,112	\$1,000					40,000				41,000
Issuance of option for services							46,000				46,000
Issuance of options in settlement of liabilities and consulting fees							265,000				265,000
Contribution of services in subsidiary							173,000				173,000
Adjustment for equity issuances of subsidiary common stock							79,000				79,000
Class A Preferred stock issued	2,305						9,000				9,000
NET LOSS										(2,927,000)	(2,927,000)
BALANCE AT December 31, 2003	56,492	\$1,000			27,858,256	\$279,000	\$22,717,000	\$	\$	\$(22,070,000)	\$927,000

TORVEC, INC. AND SUBSIDIARIES  
(a development stage company)

Consolidated Statements of Changes in Stockholders' Equity (Capital Deficit)  
For the Period from September 25, 1996 (Inception) through December 31, 2004  
(continued)

	Class A Preferred Stock		Class B Preferred Stock		Common Stock		Additional Paid-In Capital	Due from Stockholders	Unearned Compensatory Stockholders' Options	Deficit Accumulated During the Development Stage	Total Stockholders' Equity
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Sale of Common Stock - June, 2004					60,000	\$ 1,000	\$ 300,000				\$ 301,000
Issuance of common stock for services					469,883	4,000	2,348,000				2,352,000
Sale of Class A Preferred Stock (\$4.00 per share) - March	203,117	\$ 2,000					820,000				822,000
Sale of Class A Preferred Stock (\$4.00 per share) - April	32,653						121,000				121,000
Conversion of Preferred Stock Class A Preferred Dividend Class A attributable to converted shares	(41,050)	8,031			41,050						-
											-
Sale of Class B Preferred Stock (\$5.00 per share) - September			20,000				100,000				100,000
Sale of Class B Preferred Stock (\$5.00 per share) - October			22,500				113,000				113,000
Contribution of services							450,000				450,000
Exercise of warrants					268,865	3,000	(2,000)				1,000
Exercise of consultants warrants					345,600	3,000		(3,000)			-
Issuance of warrants for consulting services							5,794,000				5,794,000
Net Loss										(9,805,000)	(9,805,000)
Balance at December 31, 2004	<u>259,243</u>	<u>\$3,000</u>	<u>42,500</u>		<u>29,043,654</u>	<u>\$290,000</u>	<u>\$32,761,000</u>	<u>\$(3,000)</u>	\$	<u>\$(31,875,000)</u>	<u>\$1,176,000</u>

**TORVEC, INC. AND SUBSIDIARIES**  
(a development stage company)

**Consolidated Statements of Cash Flows**

	<b>Year Ended December 31,</b>		<b>September 25, 1996 (Inception) Through December 31,</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>			
Net loss	<b>\$ (9,805,000)</b>	\$(2,927,000)	\$ (31,875,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	<b>182,000</b>	172,000	769,000
Minority interest in loss of consolidated subsidiary	<b>(292,000)</b>	(413,000)	(991,000)
Compensation expense attributable to common stock in Subsidiary			619,000
Common stock issued for services	<b>2,352,000</b>	850,000	7,602,000
Contribution of services	<b>450,000</b>	240,000	1,509,000
Compensatory common stock, options and warrants	<b>5,794,000</b>	46,000	11,480,000
Changes in:			
Prepaid expenses	<b>(141,000)</b>	2,000	11,000
Deferred revenue			150,000
Accounts payable and accrued expenses	<b>657,000</b>	1,021,000	3,693,000
Other Assets - Deposits	<b>(2,000)</b>		(2,000)
Net cash used in operating activities	<b><u>(805,000)</u></b>	<u>(1,009,000)</u>	<u>(7,035,000)</u>
<b>Cash flows from investing activities:</b>			
Purchase of equipment	<b>(135,000)</b>	(1,000)	(204,000)
Cost of acquisition			(16,000)
Net cash used in investing activities	<b><u>(135,000)</u></b>	<u>(1,000)</u>	<u>(220,000)</u>
<b>Cash flows from financing activities:</b>			
Net proceeds from sales of common stock and upon exercise of options and warrants	<b>271,000</b>	444,000	6,488,000
Net proceeds from sales of preferred stock	<b>1,187,000</b>	72,000	1,369,000
Net proceeds from sale of subsidiary stock		234,000	234,000
Proceeds from loan			29,000
Repayments of loan		(2,000)	(29,000)
Proceeds from (repayment of) stockholders' loans and advances		25,000	103,000
Distributions			(365,000)
Net cash provided by financing activities	<b><u>1,458,000</u></b>	<u>773,000</u>	<u>7,829,000</u>
<b>Net increase (decrease ) in cash</b>	<b>518,000</b>	(237,000)	574,000
Cash at beginning of period	<b><u>56,000</u></b>	<u>293,000</u>	
<b>Cash at end of period</b>	<b><u>\$ 574,000</u></b>	<b><u>\$ 56,000</u></b>	<b><u>\$ 574,000</u></b>
<b>Supplemental disclosure of noncash investing and financing activities:</b>			
Issuance of common stock, warrant and options in settlement of liabilities, except notes payable		\$ 265,000	
Preferred Dividends paid in Preferred Stock	<b>\$32,000</b>		
Advance settled with common stock		25,000	
Cash paid for interest		1,000	

**TORVEC, INC. AND SUBSIDIARIES**  
(a development stage company)

**Notes to Consolidated Financial Statements**  
**December 31, 2004**

**NOTE A - THE COMPANY**

Torvec, Inc. (the "Company") was incorporated in New York on September 25, 1996. The Company, which is in the development stage, specializes in automotive technology. In September 1996, the Company acquired numerous patents, inventions and know-how (the "technology") contributed by Vernon E. Gleasman and members of his family (the "Gleasmans"). The Company intends to develop and design specific applications for this technology relating to steering drives for tracked vehicles, infinitely variable transmissions, hydraulic pumps and motors and constant velocity joints and spherical gearings. As consideration for this contributed technology, the Company issued 16,464,400 shares of common stock and \$365,000 to the Gleasmans. In September 1996, the Company issued 2,535,600 shares of common stock (valued at \$406,000) to individuals as consideration for the cost of services and facilities provided in assisting with the development of this technology.

For the period from inception through December 31, 2004, the Company has accumulated a deficit of \$31,875,000, and at December 31, 2004 has a working capital deficiency of \$1,090,000 and has been dependent upon equity financing and advances from stockholders to meet its obligations and sustain operations. The Company's efforts have been principally devoted to research and development, raising capital and marketing of principal products. Substantial additional financing will be required by the Company to fund its activities. In the circumstances the Company has established a budget to provide for its continued operations through December 31, 2005. On April 5, 2005, the Company had secured a funding commitment from a stockholder to fund operations, and other special projects on an as needed basis, of approximately \$360,000 through December 31, 2005. In addition to the funding commitment, the stockholder purchased 47,500 shares of its Class A Preferred Stock for \$190,000 on March 16, 2005.

On November 29, 2000, the Company acquired Ice Surface Development, Inc. ("Ice") (incorporated on May 2, 2000) for 1,068,354 shares of common stock valued at approximately \$3,405,000. The acquisition was accounted for under the purchase method. On March 31, 2002, the Company granted to three former officers of the Company 28% of Ice in exchange for previously granted fully vested options (see Note I[1]). The exchange was valued at \$618,000 based upon the estimated fair value of the options cancelled. The difference between the Company's deemed proceeds of \$618,000 and the carrying portion of the Company's investment deemed sold of \$850,000 is reflected as a reduction of paid in capital in stockholders' equity.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**[1] Consolidation:**

The financial statements include the accounts of the Company, its majority-owned subsidiary, Ice (69.26% owned at December 31, 2004), and its wholly owned subsidiary Iso-Torque Corporation. All material intercompany transactions and account balances have been eliminated in consolidation.

**[2] Property and Equipment:**

Equipment, including a prototype vehicle, is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets which range from three to seven years. Leasehold improvements are being amortized over shorter of lease term or useful life.

**[3] Research and development and patents:**

Research and development costs and patent expenses are charged to operations as incurred.

**TORVEC, INC. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements****December 31, 2004****NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****[4] License:**

Through December 31, 2004, the license was being amortized over its estimated useful life of approximately 19 years which correlates to an underlying patent. Charges for amortization in each of the years ended December 31, 2004, and 2003 was \$169,000. Such amortization expense is included in research and development expense. Effective January 1, 2005, the Company has changed its estimate of economic useful life to 3 years.

Total future amortization of the license are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2005	\$ 856,000
2006	856,000
2007	<u>856,000</u>
	<u>\$ 2,568,000</u>

**[5] Use of estimates:**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates are used in valuing assets and determining the useful life of such assets. Actual results could differ from those estimates.

**[6] Loss per common share:**

Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," requires the presentation of basic earnings per share, which is based on common stock outstanding, and dilutive earnings per share, which gives effect to options, warrants and convertible securities in periods when they are dilutive. At December 31, 2004 and 2003 the Company excluded 2,832,435 (excluding 500,000 warrant subject to exercise conditions) and 2,543,300 potential common shares, respectively, relating to convertible preferred stock outstanding options and warrants from its diluted net loss per common share calculation because they are anti-dilutive.

**[7] Fair value of financial instruments:**

The carrying amount of cash, accounts payable and accrued expenses approximates their fair value due to the short maturity of those instruments. The fair value of loans payable to stockholders and officers are not readily determinable due to the related party nature of those items.



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**Notes to Consolidated Financial Statements  
December 31, 2004****NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****[8] Stock-based compensation:**

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has elected to account for its employee stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the stock. Stock options granted for goods or nonemployee services are measured using the fair value of these options and such costs are included in operating results as an expense.

The Company applies APB No. 25 and related interpretations in accounting for its employee and director stock options. Had compensation cost for the Company's stock options been determined based upon the fair value of awards under the Plan consistent with the methodology prescribed under SFAS No. 123, the Company's pro forma net loss attributable to common stockholders and related pro forma per share amounts would be as follows:

	<b>Year Ended December 31,</b>	
	<b>2004</b>	<b>2003</b>
Net loss attributable to common stockholders	(10,452,000)	(2,943,000)
Add stock-based compensation expense under APB No. 25 included in net loss	297,000	-
Less stock-based compensation expense under SFAS No. 123	<u>(297,000)</u>	<u>(458,000)</u>
Pro forma net loss attributable to common stockholders	<u><u>\$(10,452,000)</u></u>	<u><u>\$(3,401,000)</u></u>
Basic and diluted net loss attributable to common stockholders per share	<u><u>\$ (0.37)</u></u>	<u><u>\$ (0.11)</u></u>
Pro forma basic and diluted net loss attributable to common stockholders per share	<u><u>\$ (0.37)</u></u>	<u><u>\$ (0.13)</u></u>

The fair value of options was estimated using the Black-Scholes option pricing model utilizing the following assumptions: risk free rate of 3.85%; expected option life 10 years; expected stock volatility of 1.64%; and expected dividend yield 0%.

**[9] Revenue recognition:**

Revenue in connection with the granting of a license to Variable Gear LLC (Note I[2]) is to be recognized when all conditions for earning such fee is complete. Revenue will be recognized when the related products are shipped, title has passed, collections are reasonably assured and the Company has no further obligation. An allowance for discounts and returns will be taken as a reduction of sales within the same period the revenue is recognized. Such allowances will be based on facts and circumstances.

**TORVEC, INC. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements  
December 31, 2004****NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****[10] Impairment of long-lived assets:**

The Company follows SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable, management assesses the recoverability of the assets. Management is also required to evaluate the useful lives each reporting period. When events or circumstances indicate, our long-lived assets, including intangible assets with finite useful lives, are tested for impairment by using the estimated future cash flows directly associated with, and that are expected to arise as a direct result of, the use of the assets. If the carrying amount exceeds the estimated undiscounted cash flows, an impairment may be indicated. The carrying amount is then compared to the estimated discounted cash flows, and if there is an excess, such amount is recorded as an impairment.

**[11] Recent accounting standards:**

In December 2004, the FASB issued FASB Statement No. 123 (Revised 2004) "Share-Based Payment: an Amendment of FASB Statement No. 123" ("FAS 123R"). FAS 123R is effective for public entities that file as small business issuers as of the first interim or annual reporting period that begins after December 31, 2005. Therefore, we will adopt it during fiscal 2006. FAS 123R sets accounting requirements for "share-based" compensation to employees, requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees and disallows the use of the intrinsic value method of accounting for stock compensation. We are currently evaluating the impact that this statement will have on our results of operations.

**NOTE C - LICENSE FROM THE TRUSTEES OF DARTMOUTH COLLEGE**

On November 28, 2000, Ice entered into a 20-year exclusive license with the Trustees of Dartmouth College ("Dartmouth") for land-based applications to a novel ice adhesion modification system developed by Dr. Victor Petrenko at Dartmouth's Thayer School of Engineering for \$25,000. The license agreement provides for the payment of \$140,000 for sponsored research and a royalty of 3.5% based on the value of net sales of licensed product with minimum annual payments of \$10,000 for the first two years, \$15,000 for the third year and \$25,000 per year thereafter. In addition, the agreement provides for the payment of 50% of sub-license fee income.

Expense for the above agreements totaled \$23,000 and \$23,000 for the years ended December 31, 2004 and 2003, respectively.

On February 27, 2004, Dartmouth agreed to defer payment of the \$15,000 royalty due November 2003. The company paid the \$15,000 deferred royalty fee and the \$25,000 royalty fee for the 2004 license year in the first quarter 2005.

## **TORVEC, INC. AND SUBSIDIARIES**

(a development stage company)

### **Notes to Consolidated Financial Statements December 31, 2004**

#### **NOTE D - RELATED PARTY TRANSACTIONS**

- [1] On December 1, 1997, the Company entered into three-year consulting agreements with three members of the Gleasman family (major stockholders and directors) whereby each will provide technical services to the Company in exchange for compensation of \$12,500 each per month. In addition, the Company granted them options to purchase a total of 75,000 shares of common stock at an exercise price of \$5.00 per share (Note H[5]). For the years ended December 31, 2003, 2002, 2001, 2000, 1999, 1998 and 1997, the Company incurred expenses amounting to approximately \$450,000, \$450,000, \$450,000, \$522,000, \$528,000, \$528,000 and \$45,000, respectively, in connection with these agreements. Effective December 1, 2000, the agreement was extended for three years and amended to provide for the payment of prior and future compensation at the discretion of the Board of Directors in either cash or shares of common stock or combination of both. Amounts charged to operations for the year ended December 31, 1997 and for the period ended December 31, 1996 were approximately \$55,000 and \$18,000, respectively. During 2001, the Company issued 126,667 shares of common stock in settlement of \$665,000 of expenses accrued for consulting service. On September 30, 2002 fees due under the consulting agreement of approximately \$653,000 were settled for 727,047 common stock options exercisable immediately at \$5.00 per share (see Note H[5]). The options are exercisable for five years.

On December 23, 2003 fees due under the consulting agreement of approximately \$265,000 were settled for 166,848 common stock options exercisable immediately at \$5.00 per share (see Note H[5]). The options were valued using Black Scholes and are exercisable for ten years.

Torvec's consulting agreements with each of Vernon E. Gleasman, Keith E. Gleasman and James A. Gleasman expired on December 1, 2003.

The Gleasmans have agreed to provide consulting services and assign new patents, existing patent improvements and all know-how in connection with all their inventions to the company. In addition, Keith E. Gleasman will continue to serve as President and as a director and James A. Gleasman will continue to serve as Chief Strategist, Investor Relations and as a director. During fiscal 2004, the company did not pay the Gleasmans any consulting fees for their services. The company recorded approximately \$450,000 for the estimated value of these services as a contribution to capital based upon the prior years consulting contract which expired in December 2003.

- [2] During 2004 and 2003, the Company paid approximately \$17,000 and \$19,000, respectively, to a member of the Gleasman family for investor and engineering services rendered.
- [3] During the years ended December 31, 2004 and 2003, the Company issued to a stockholder 35,000 and 70,000 common shares as rent for the company's use of a facility valued at approximately \$194,000 and \$158,000 respectively.

#### **NOTE E - INCOME TAXES**

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company's majority owned subsidiary, Ice, files separate tax returns.

At December 31, 2004, the Company has available \$9,400,000 (including \$1,896,000 relating to Ice) of net operating loss carry forwards to offset future taxable income expiring through 2024.

**TORVEC, INC. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements****December 31, 2004****NOTE E - INCOME TAXES - (CONTINUED)**

At December 31, 2004, the Company has a deferred tax asset of approximately \$3,708,000 representing the benefits of its net operating loss carry forward and a deferred tax asset of \$8,400,000 from temporary differences, principally stock options not currently deductible and certain operating expenses which have been capitalized as start-up costs for federal income tax purposes. The total of these deferred tax assets has been fully reserved by a valuation allowance since realization of their benefit is uncertain. The valuation allowance for deferred tax asset increased \$2,700,000, due mainly to net operating losses.

A reconciliation between the actual income tax benefit and income taxes computed by applying the federal income tax rate of 34% to the net loss is as follows:

	<b>Year Ended December 31,</b>	
	<b>2004</b>	<b>2003</b>
Computed federal income tax benefit at 34% rate	\$ (3,334,000)	\$ (995,000)
State tax benefit, net of federal tax benefit	(517,000)	(154,000)
Nondeductible expenses	68,000	66,000
Valuation allowance	<u>3,783,000</u>	<u>1,083,000</u>
	<u>\$ 0</u>	<u>\$ 0</u>

**NOTE F - ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

At December 31, 2004, accounts payable and accrued expenses consist of the following:

Professional fees	\$ 290,000
Payroll to officer/stockholders of Ice (Note I[1])	<u>1,495,000</u>
	<u>\$ 1,785,000</u>

**NOTE G - LOAN PAYABLE - STOCKHOLDERS, OFFICER AND OTHER**

During 1998, the Company purchased a vehicle as a prototype. The vehicle was collateral for a loan. The loan was paid in monthly installments of principal and interest (at 10.13% per annum) of approximately \$610 through March 2003. At December 31, 2002, the prototype vehicle was fully depreciated.

During 2001, an existing shareholder loaned the company \$50,000 bearing interest at 7.5% with no specified repayment terms. Included in amounts payable at December 31, 2003 is approximately \$2,000 of accrued interest. During April 2002 the principal of this loan was satisfied with the issuance of 35,461 shares of common stock at the then fair market value at the date of exchange. In addition, during 2002 this existing stockholder purchased at the market value, 508,897 (109,890 of such shares were issuable at December 31, 2002) shares of common stock for approximately \$668,000.

## **TORVEC, INC. AND SUBSIDIARIES**

(a development stage company)

### **Notes to Consolidated Financial Statements December 31, 2004**

#### **NOTE G - LOAN PAYABLE - STOCKHOLDERS, OFFICER AND OTHER (CONTINUED)**

In 2003, this existing stockholder purchased 361,112 common shares for \$300,000 and was paid 70,000 common shares valued at \$158,000 for consulting and as rent for the company's use of a facility. The shareholder also purchased 15,687 Class A Preferred Shares for \$63,000 in 2003. On March 22, 2004 this stockholder purchased 17,922 Class A Preferred Shares for \$71,687.

In August 2003, this existing stockholder advanced \$25,000 to the Company. In October 2003, this advance was settled for 10,000 shares of common stock at market value.

During 2001, certain officers and stockholders loaned the Company \$109,000. The loans were noninterest bearing with no specified repayment terms. During 2002, \$81,000 of such loans were repaid. At December 31, 2004, \$28,000 remained outstanding.

In 2004, this existing stockholder purchased 60,000 common shares for \$301,000 and was paid 35,000 common shares valued at \$194,000 at market value as rent and for use by the Company of a facility and technicians. The existing stockholder also purchased 50,575 Class A Preferred Shares for \$202,300 in 2004. On October 8, 2004 the stockholder purchased 20,000 Class B Preferred Shares for \$100,000.

#### **NOTE H - STOCKHOLDERS' EQUITY**

##### **[1] Private placement:**

The Company received net proceeds from private placements of its common stock of \$550,000, \$1,230,000 (of which \$507,000 was received from the Gleasman family), \$758,000, \$1,068,000 and \$331,000 from private placements for the years ended December 31, 2000, 1999, 1998 and 1997 and for the period ended December 31, 1996, respectively.

On September 10, 2003, the Company sold 8,000 common shares for \$20,000.

On June 23, 2004, the Company sold 60,000 common shares for \$301,000 to an existing stockholder. (see Note G)

##### **[2] Class A Preferred stock:**

In January 2002, the Company has authorized the sale of up to 2,000,000 shares of its Class A Non-Voting Cumulative Convertible Preferred Stock ("Class A Preferred"). During 2002, the Company sold 38,500 shares at \$4.00 per share of its Class A Preferred in a private placement offering for approximately \$142,000 in net proceeds. Each share of Class A Preferred is convertible into one share of voting common stock and entitles the holder to dividends, at \$.40 per share per annum. The holder has the right to convert after one year subject to Board approval. At December 31, 2004, dividends in arrears amounted to approximately \$113,000.

In connection with this offering the Company granted the placement agent 5,000 Class A Warrants, exercisable for five years at an exercise price of \$1.52 per share into common stock. The Company also granted to these investors 2,500 Class A Warrants, exercisable for five years at an exercise price of \$0.01 per share. Such warrants were treated as a cost of the offering. Also, the placement agent was granted 10,000 warrants for providing certain financial analysis for the Company. The warrants are immediately exercisable at \$.30 per share for five years. The warrant contains a cashless exercise feature. The Company valued the warrant at \$8,000 using the Black-Scholes option-pricing model and charged operations. On July 8, August 14 and September 11, 2003, the company issued 2,500, 7,480 and 1,200 common shares respectively to the placement agent upon the exercise of warrants issued in connection with this offering.

## **TORVEC, INC. AND SUBSIDIARIES**

(a development stage company)

### **Notes to Consolidated Financial Statements December 31, 2004**

#### **NOTE H - STOCKHOLDERS' EQUITY (CONTINUED)**

During 2003, the Company sold 15,687 Class A Preferred Shares for \$63,000.

In December 2003, the Company received \$9,216 for 2,305 Class A Preferred Shares, classified as Class A Preferred Stock issued in January, 2004.

During 2004, the Company sold 235,770 Class A Preferred for \$943,000. (see Note G)

During 2004, Class A Preferred holders converted 38,500 Class A Preferred into 38,500 common shares and received dividends of 8,031 Class A Preferred upon conversion. On June 6, 2004, the Board of Directors declared a 10% per share preferred stock dividend on those shares converted. In 2004, 2,550 of these shares issued as dividends were converted into 2,550 common shares.

#### **[3] Class B Preferred stock:**

On October 21, 2004, the Company authorized the sale of up to 300,000 shares of its Class B Non-Voting Cumulative Convertible Preferred Stock ("Class B Preferred"). During 2004, the company sold 42,500 shares at \$5.00 per share of its Class B Preferred for \$212,500. Each share of Class B Preferred is cumulative convertible into either one share of voting common stock of the Company or one share of common stock of Iso-Torque Corporation under certain circumstances and entitles the holder to dividends, at \$.50 per share per annum. The holder has the right to convert after one year subject to Board approval. At December 31, 2004, dividends in arrears amounted to approximately \$6,000.

#### **[4] Consultant:**

In February 1997, the Company entered into a three-year agreement with an IPO consultant (the "IPO Consultant") whereby the IPO Consultant to provide financial consulting services and assistance in obtaining financing as well as other services. In consideration thereof, employees of the IPO Consultant received an aggregate of 1,000,000 shares of common stock for \$50. The Company valued the shares of common stock at \$1.50 per share.

In April 1997, the Company granted an aggregate of 500,000 warrants to five employees of the IPO Consultant. The warrants are exercisable into common stock at the initial public offering (the "IPO") price and are exercisable for five years from the date the Company's IPO is declared effective (the "warrant term"). However, if fifty percent or more of either the Company's assets or its common stock is acquired by another entity or group during the warrant term, the exercise price shall be \$1.50. The Company will record a charge to operations representing the fair value of the warrants when the IPO is declared effective.

On February 10, 1999, the company entered into a one-year agreement with two employees of the IPO Consultant to provide financial and public relation services. In connection therewith, 375,000 of the 500,000 warrants previously granted as described in the previous paragraph were cancelled and the company granted 375,000 options at an exercise price of \$5.00 exercisable immediately through February 10, 2004. The Company valued these options at \$2,780,000 using the Black-Scholes option-pricing model with the following weighted average assumptions for the year ended December 31, 1999: risk free interest rate of 5%, dividend yield 0%, volatility 40% and expected life for options granted of 5 years. These options were charged to operations over the term of the consulting agreement. In February 1999, 21,000 of such options were exercised. The term of these options expired on February 10, 2004.



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**Notes to Consolidated Financial Statements  
December 31, 2004****NOTE H - STOCKHOLDERS' EQUITY (CONTINUED)****[5] Common stock subject to resale guarantee:**

During 2002, the Company issued 190,965 shares to former officers and certain minority stockholders of Ice in exchange for approximately \$269,000 owed to them. If, on the sale of the shares, the amount realized is less than \$269,000 additional shares shall be issued and if the amount is greater than \$269,000 such excess shall be returned to the Company. During 2002, such shares realized proceeds of approximately \$269,000.

**[6] Stock option plan:**

In December 1997, the Board of Directors of the Company approved a Stock Option Plan (the "Plan") which provides for the granting of up to 2,000,000 shares of common stock, pursuant to which officers, directors, key employees and key consultants/advisors are eligible to receive incentive, nonstatutory or reload stock options. Options granted under the Plan are exercisable for a period of up to 10 years from date of grant at an exercise price which is not less than the fair value on date of grant, except that the exercise period of options granted to a stockholder owning more than 10% of the outstanding capital stock may not exceed five years and their exercise price may not be less than 110% of the fair value of the common stock at date of grant. Options may vest over five years.

In connection with certain consulting agreements (see Note D[1]), the Company granted an aggregate of 75,000 nonqualified options to purchase common stock under the Plan at an exercise price of \$5.00 per share. The options vest 20% per annum and are exercisable through November 30, 2007. The Company valued these options using the Black-Scholes option-pricing model. The fair value of these options were expensed over the term of the consulting agreements.

On September 30, 2002, in connection with the same agreements (see Note D[1]), the company granted an aggregate 727,047 common stock options under the Plan, exercisable at \$5.00 per share. The options were issued in payment of an aggregate \$653,000 owed under the consulting agreements. These options expire on September 30, 2007.

On December 22, 2003 the company granted 166,848 common stock options under the Plan at an exercise price of \$5.00 per share. These options were issued in payment of an aggregate \$265,000 owed through December 31, 2003 under the consulting agreements. (see Note D[1])

In August 2001, the Company granted 100,000 options to an officer in his capacity as consultant at \$5.00 per share exercisable immediately. In connection therewith, the Company recorded a stock compensation charge of \$398,000. The term of the option granted shall be for a period of 10 years.

On May 20, 2003, the company granted a common stock option to a consultant under the plan for 50,000 shares, exercisable at \$2.26 per common share. In connection therewith, the Company recorded a stock compensation charge of \$46,000. These options expire on May 20, 2013.

The company granted an aggregate 225,000 common stock options under the Plan on October 15, 2003 exercisable at \$5.00 per share to three directors of the company. These options expire on October 15, 2013.

No options were granted under the Plan during fiscal 2004.

**TORVEC, INC. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements  
December 31, 2004****NOTE H - STOCKHOLDERS' EQUITY (CONTINUED)**

A summary of options granted under the Plan are as follows:

	Year Ended December 31,			
	2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,723,895	\$ 4.92	1,282,047	\$ 5.00
Granted			441,848	4.69
	<u>1,723,895</u>	<u>4.92</u>	<u>1,723,895</u>	<u>4.92</u>
Outstanding at end of year	<u>1,723,895</u>	<u>4.92</u>	<u>1,723,895</u>	<u>4.92</u>
Options exercisable at year end	<u>1,723,895</u>	<u>4.92</u>	<u>1,723,895</u>	<u>4.92</u>
Weighted average fair value of options granted during the year			\$1.54	

At December 31, 2004, 276,105 options are available for future grants under the Plan.

The following table represents information relating to stock options outstanding at December 31, 2004:

Options Outstanding			Options Exercisable	
Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Shares	Weighted Average Exercise Price
1,673,895	\$5.00	4.7	1,673,895	\$5.00
<u>50,000</u>	<u>2.26</u>	<u>8.4</u>	<u>50,000</u>	<u>2.26</u>
<u>1,723,895</u>			<u>1,723,895</u>	



**TORVEC, INC. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements  
December 31, 2004****NOTE H - STOCKHOLDERS' EQUITY (CONTINUED)**

The fair value of options at date of grant was estimated using the Black-Scholes option-pricing model utilizing the following assumptions:

	<b>2003</b>
Risk-free interest rates	<b>1.59-4.30%</b>
Expected options life in years	<b>10</b>
Expected stock price volatility	<b>1.58-1.64%</b>
Expected dividend yield	<b>0%</b>

**[7] Business consultant stock plan:**

In June 1999, the Company adopted the Business Consultant Stock Plan (the "Stock Plan"). The plan as amended provides for up to 5,100,000 shares of common stock to be issued from time to time to consultants in exchange for services. For the years ended December 31, 2004, 2003, 2002, 2001, 2000 and 1999, 469,883, 738,184, 1,057,455 (including 190,965 issued in settlement of amounts owed (see Note H[4])), 361,100, 196,259 and 45,351 shares were issued, respectively, to consultants and third parties in exchange for services and amounts owed to them. During the years ended December 31, 2004, 2003, 2002, 2001, 2000 and 1999 the Company charged \$2,352,000, \$832,000, \$1,036,000 (excluding \$269,000 (see Note H[4])), \$1,011,000, \$840,000 and \$327,000, respectively, to operations in connection with the share issuances. At December 31, 2004, 1,886,168 shares are available for future grants under the Plan.

**[8] Nonmanagement Directors Plan:**

On October 1, 2004, the Board of Directors approved a Nonmanagement Directors Plan pursuant to which each nonmanagement director is entitled to receive, if certain conditions are met, on an annual basis for services rendered as a director, warrants to purchase 12,000 shares of the company's common stock at \$.01 per share. In addition, the chairman of the audit committee is entitled to receive, on an annual basis for services rendered as chairman, additional warrants for 5,000 shares of the company's common stock at \$.01 per share.

At December 31, 2004 53,000 warrants were outstanding and vested immediately. The Company recorded a charge of \$297,000 to general and administrative expenses representing the intrinsic value of such warrants in 2004. In addition, when such warrants are granted in the future the Company will record a charge equal to the difference between the then market price and \$.01 per share.

**[9] Noncash transaction:**

During 1998, the Company granted 1,000 shares of common stock, valued at \$3.00 per share, for services provided. During 1997, the Company granted 12,000 and 2,000 shares of common stock for services provided. The Company valued the shares at their fair value of \$1.50 and \$3.00 per share, respectively. During 2003 and 2002, 15,640 and 134,964 restricted shares were issued for services aggregating approximately \$18,000 and \$198,000 respectively.

**[10] Equity funding commitment:**

On September 5, 2000, the Company entered into an agreement with Swartz Private Equity, LLC ("Swartz") pursuant to which Swartz granted to the Company a \$50,000,000 equity funding commitment which continues for a period of thirty-six months. The agreement provides that from time to time, at the Company's

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**Notes to Consolidated Financial Statements  
December 31, 2004****NOTE H - STOCKHOLDERS' EQUITY (CONTINUED)**

request, Swartz will purchase from the Company that number of the Company's common shares equal to 15% of the number of shares traded on the market in the 20 business days after the start of the requested purchase. The purchase price will be the lesser of, 91% of the average market price during that 20-day period or such market price minus \$0.20. Swartz will not be required to purchase at any one time shares having a value in excess of \$2,000,000. If the Company is in need of funds, the Company may make additional requests at intervals of approximately 30 days.

As a commitment fee, the Company granted to Swartz commitment warrants to purchase 960,101 shares of the Company's common stock which warrants can be exercised through August 15, 2005. The total number of commitment warrants is subject to antidilution provisions. The warrant exercise price is reset to the lowest closing price of the Company's common stock during the five trading days ending on each six-month anniversary of warrant issue date. During 2002, 76,456 commitment warrants were exercised for proceeds of approximately \$60,000. During 2003, in accordance with the warrant agreements, Swartz exercised the remaining 883,645 commitment warrants in a cashless exercise transaction, receiving 647,270 common shares.

In addition to the commitment warrants referred to above, Swartz will be issued a warrant to purchase one share of common stock of the Company for every ten shares that it purchases pursuant to the agreement. These purchase warrants will initially be exercisable at 110% of the market price of the shares simultaneously purchased by Swartz, subject to the same reset provisions as govern the commitment warrants. During 2002, 47,992 of such warrants were exercised for proceeds of approximately \$67,000. In 2003, Swartz exercised the balance of its purchase warrants (9,875) in a cashless exercise transaction, receiving 7,162 common shares.

The Agreement with Swartz terminated on September 5, 2003.

**[11] Warrants:**

At December 31, 2004, outstanding warrants to acquire shares of the Company's common stock are as follows:

<b>Exercise Price</b>	<b>Expiration</b>	<b>Number of Shares Reserved</b>	
\$1.52	September 18, 2007	5,000	(Note H [2])
(a)	(a)	125,000	(Note H[4])
\$.75	None	500,000	(b)
\$.01	None	594,400	(c)
\$.01	None	53,000	(d)

(a) Exercisable at IPO price and exercisable five years from IPO.

(b) On April 15, 2002, the Company issued 1,000,000 warrants to purchase common stock at prices ranging from \$.30 to \$.75 to its then chairman of the board of directors and chief executive officer. Of the total warrants, 250,000 were exercisable at \$.30, and 250,000 were exercisable at \$.50 on the date the then board elected the executive to the board and named the chief executive officer. During the year ended December 31, 2002, 250,000 warrants were exercised for \$.30 per share, resulting in proceeds of \$75,000. During the year ended December 31, 2003, 250,000 warrants were exercised for \$.50 per share, resulting in proceeds of \$125,000. The remaining 500,000 warrants are exercisable upon the execution of the Company of a binding agreement for the sale, transfer, license or assignment for value of any and/or all of its Company's technology at \$.75 per share. The Company will record a charge representing the fair value of the warrants when the warrants become exercisable.

**TORVEC, INC. AND SUBSIDIARIES**

(a development stage company)

**Notes to Consolidated Financial Statements  
December 31, 2004****NOTE H - STOCKHOLDERS' EQUITY (CONTINUED)**

- (c) In 2004, the Company issued 940,000 warrants, exercisable at \$.01 per share, 345,600 warrants were exercised in fiscal 2004 for proceeds of aggregate \$3,456 in accordance with its June 30, 2004 agreement with a management consulting firm. (see Note J)
- (d) For the year ended December 31, 2004, the Company was obligated to issue 12,000 warrants to each of four nonemployee directors under the Nonemployee Directors Stock Plan and 5,000 warrants to its audit committee chairman for services rendered to the Board and to the committee. The exercise price is \$.01 per share with no expiration date. (see Note H[8])

**[12] Issuance of Stock and Warrants by Subsidiary:**

During the quarters ended June 30, and September 30, 2003, the Company's subsidiary Ice, issued 308,041 shares of its common stock at \$.76 per share realizing aggregate proceeds of \$234,000 in a private placement. These issuances reduced the Company's interest in the subsidiary from 72% to approximately 69.26%. Based on the Company's accounting policy, the change in the Company's proportionate share of Ice's equity resulting from the additional equity raised by the subsidiary is accounted for as a capital transaction and has been reflected as an increase in stockholders' equity. Pursuant to Ice's private placement the Company, has reserved the right but not the obligation, for a period not to exceed 30 months from June 9, 2003 or any subsequent offering of Ice stock, to purchase all of the capital stock of Ice (including shares to be issued upon exercise of outstanding warrants of Ice) at a purchase price equal to the greater of \$3.00 per share or the appraised value of Ice with such appraised value capped at \$6.00 per share.

In connection with the private placement, Ice issued 53,948 warrants to the placement agent exercisable at \$.76 per share through June 9, 2008. In addition, 50,000 warrants were issued by Ice to a consultant exercisable at \$.76 per common share through June 9, 2008. In connection therewith a fair value compensation charge of \$36,000 was recognized.

## **TORVEC, INC. AND SUBSIDIARIES**

(a development stage company)

### **Notes to Consolidated Financial Statements December 31, 2004**

#### **NOTE I - COMMITMENTS AND OTHER MATTERS**

##### **[1] Employment agreements:**

The Company has entered into three employment agreements with stockholders for a period of three years, commencing on the first day of the month in which the Company receives the proceeds from an IPO. Two agreements each provide for salaries of \$150,000 per year. The third agreement provides for a salary of \$240,000 in the first year, \$252,000 in the second year and \$264,000 in the third year and provides for a minimum bonus of \$15,000 per quarter for the duration of the agreement. Effective August 1, 2001, such employment agreements were terminated. However, options previously granted pursuant to those agreements remain in effect. No compensation charge has been reflected related to their change in status since the individuals were also members of the board of directors. As of December 31, 2002, the options were fully vested.

Effective January 1, 2002, one of the directors resigned. Consequently, the Company recorded a charge of \$32,000 relating to the estimated fair value of the remaining vesting of such directors options during 2002.

On August 1, 2001, the Company entered into three-year employment agreements with its Chief Executive Officer and Chief Operating Officer. The employment agreements provide for annual base salary of \$240,000 pro rated for calendar year 2001 and increasing thereafter by \$20,000 per annum. In addition, the agreements provide for an annual bonus of \$60,000 for calendar year 2001 and increasing thereafter by \$60,000 per annum. On September 1, 2001 the Company entered into a three-year employment agreement with its Vice President - Manufacturing. The employment agreement provides for annual base salary of \$144,000 pro rated for calendar year 2001 and increasing by \$16,000 for calendar year 2002, and increasing thereafter by \$30,000 per annum. In addition, the agreement provides for annual bonuses of \$25,000, \$40,000 and \$50,000 for calendar years 2001, 2002 and 2003, respectively. At March 31, 2002 amounts owing under these employment agreements aggregating approximately \$633,000 were settled through the issuance of 448,865 warrants to purchase common stock at an exercise price of \$.01. On March 20, 2003, 130,000 of these warrants were exercised and on September 26, 2003, another 50,000 of these warrants were exercised. On April 1, 2004, the balance of 268,865 warrants were exercised.

Effective March 31, 2002 the agreements were terminated and the officers resigned from the Company. Simultaneously, Ice executed employment agreements with the individuals in the name of Ice with the same terms as previously executed and the individuals became officers of Ice. In 2003 and 2002, these individuals contributed \$240,000 and \$720,000 respectively of accrued compensation to Ice's capital and agreed to forgo payment of all future monies under their employment agreement until certain board-discretionary performance criteria have been realized.

The Company may pay all compensation under these agreements either in cash or common stock as determined by the Board of Directors. In connection with these agreements, the Company granted 450,000 options at \$5.00 per share. The term of the options granted shall be for a period of 10 years and vest immediately. These options were exchanged for a 28% interest in Ice in March 2002. (see Note A)

On March 31, 2003, the Company issued 148,387 shares of common stock at fair market value to the officers of Ice in exchange for approximately \$122,000 owed to them for services performed for Ice. These shares were issued under the Business Consultants Stock Plan.

During the quarter ended June 30, 2003, the Company issued 52,911 shares at fair market value to the officers of Ice in exchange for approximately \$40,000 owed to them for services performed for Ice. These shares were issued under the Business Consultants Stock Plan.

**TORVEC, INC. AND SUBSIDIARIES**

(a development stage company)

**Notes to Consolidated Financial Statements  
December 31, 2004****NOTE I - COMMITMENTS AND OTHER MATTERS (CONTINUED)****[2] Variable Gear, LLC**

In June 2000, the Company sold 100,000 shares of common stock to a stockholder for \$5.00 per share and granted an exclusive world-wide license of all its technology to Variable Gear, LLC ("Variable Gear") (an entity owned 51% by the stockholder) for the aeronautical and marine markets. Variable Gear is to pay the Company a royalty of 4% of the gross selling price of products incorporating the technology and 49% of compensation received with respect to sublicense income through January 1, 2008. The Company owns the remaining 49% of Variable Gear. The Company does not share in any profit or losses in this entity. On January 1, 2008, the Company is required to purchase the membership interest of the stockholder at the then fair market value as defined. At December 31, 2004 such fair value cannot yet be reasonably determined.

The market price of the Company's stock at the date of the transaction was \$3.50. Accordingly, \$1.50 per share has been allocated to the license agreement. The license revenue of \$150,000 is classified as deferred revenue.

**[3] Leases:**

In November 2002, the Company entered into a vehicle lease, which provides for lease payments as follows:

2004	6,700
2005	<u>1,700</u>
	<u>\$ 8,400</u>

The company has leased premises for use as its executive offices. The lease is for a period of 3 years, commencing July 1, 2004 expiring on June 30, 2007 with monthly rental payments of approximately \$2,200. The company is also responsible for its share of real estate taxes, certain maintenance and repair costs, and increases in utility costs associated with the premises.

On August 1, 2004, the company sublet a portion of a facility for a term of six months at a rental rate of \$600 per month. On December 31, 2004, the company purchased from the previous owner certain assets for approximately \$68,000 and assumed the lease of the underlying tenant for the entire premises. The lease term expires on February 28, 2007 with a monthly rental payments of \$2,100.

On March 1, 2005 the company entered into a one year lease with a shareholder pursuant to which the company rents an office, conference room, shop and manufacturing facility. The company is also furnished with the services of three engineers and two machine operators at the facility. The company is obligated to pay 10,000 shares of its common stock on a monthly basis for the facility and services.

Minimum future obligations under the leases are as follows:

<u>Year ending December 31</u>	
2005	\$ 51,000
2006	51,000
2007	<u>15,000</u>
	<u>\$117,000</u>

## **TORVEC, INC. AND SUBSIDIARIES**

(a development stage company)

### **Notes to Consolidated Financial Statements December 31, 2004**

#### **Note J - Management Agreement**

On February 20, 2004 the company entered into an agreement with a management-consulting firm to assist the company in executing a business plan to commercialize and produce a full terrain vehicle. Upon execution of the agreement, the company granted 15,306 shares of common stock at fair market value in settlement of \$75,000 incurred on January 31, 2004. The February 20th agreement was terminated and replaced with a new agreement effective June 30th whereby the management consulting firm will furnish individuals to serve as the company's chief executive officer, chief financial officer and chairman of its board of directors as well as continuing to provide all of the business consulting and technical services provided under the February 20th agreement. As under the February 20th agreement, the June 30th agreement provides that no payments of any kind, stock, warrants or options will be made to the individuals furnished by the management consulting firm but all payments, stock issuances, warrants or options will be made by the company directly to the management consulting firm. The June 30th agreement is for an initial term of 24 months and will be renewed for additional 24 month periods unless either party provides notice to the other at least sixty days prior to the end of the term. Under the agreement, the company will pay the management consulting firm \$50,000 (payable in the company's discretion, in stock under Business Consultants Plan or cash), plus 20,000 warrants exercisable at \$.01 per share on a monthly basis. Upon the happening of a revenue producing event, the company will grant 40,000 warrants per month, exercisable at \$.01 per share. Under the agreement, the company is obligated to grant warrants exercisable at \$.01 per share based upon a formula if the closing bid price of the company's common stock is equal to or greater than \$5.00 per share.

However, the total number of warrants issuable under the formula is capped at 2,250,000. In connection with this obligation, the company granted 500,000 warrants during the first quarter of fiscal 2004 as a result of the stock price exceeding \$5.00 per share. Under the formula, the company may be obligated to grant additional warrants under the agreement's term at which time they will be valued. If the calculation were performed as of December 31, 2004, the company would have had to grant an additional 245,000 warrants. Pursuant to the agreement, the company granted 200,000 warrants on August 20, 2004. The agreement provides for additional success and other fees payable in warrants. In connection therewith, the company may recognize significant charges in the future if and when such events occur.

In fiscal 2004, the company issued a total of 940,000 warrants and a total of 107,499 common shares to the management consulting firm under both agreements. The company recorded a charge of approximately \$5,496,000 for these warrants for the year ending December 31, 2004.

#### **NOTE K - SUBSEQUENT EVENT**

During the first quarter ended March 5, 2005, the company issued at fair market value an additional 60,000 warrants and 29,832 shares to the management consulting firm in accordance with the June 30 agreement.

The Company raised approximately \$190,000 through the sale of 47,500 shares of its Class A Preferred Stock at \$4.00 per share in the first quarter of 2005.

**Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None

**Item 8 (a) CONTROLS AND PROCEDURES**

Richard E. Ottalagana and Philip A. Fain, as of December 31, 2004, the company's chief executive officer and chief financial officer, respectively, have informed the Board of Directors that, based upon their evaluations of the company's disclosure controls and procedures as of the end of the period covered by this annual report (Form 10-KSB), such disclosure control and procedures are effective to ensure that information required to be disclosed by the company in the reports it submits under the Securities Exchange Act of 1934 is accumulated and communicated to management (including the chief executive officer and chief financial officer) as appropriate to allow timely decisions regarding required disclosure.

Management, with the participation of the company's chief executive and chief financial officers, has concluded that there were no changes in the company's internal control over financial reporting that occurred during the company's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting

**PART III**

**Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

**(a) Identification of Directors, Executive Officers And Consultants**

The following table sets forth certain information about the current directors, executive officers of the company and its consultants as of December 31, 2004. \*

	<u>Nominee</u>	<u>Principal Occupation</u>	<u>Age</u>	<u>Date of Election or Designation</u>	<u>Date of Termination or Resignation</u>
(1)	Read D. McNamara 777 Allens Creek Road Rochester, NY 14618	Chairman of the Board Director	57	06/15/04	**
(2)	Richard E. Ottalagana 965 Strong Road Victor, NY 14564	Chief Executive Officer	62	06/15/04	**
(3)	Keith E. Gleasman 11 Pond View Drive Pittsford, NY 14534	President Director	57	09/26/96	**
(4)	Philip A. Fain 35 Chelsea Park Pittsford, NY 14534	Chief Financial Officer Secretary	50	06/15/04	**
(5)	Gary A. Siconolfi 325 VanVoorhis Avenue Rochester, New York 14617	Director	53	10/31/02	**
(6)	Herbert H. Dobbs 448 West Maryknoll Road Rochester Hills, MI 48309	Director	73	02/20/98	**



(7)	James A. Gleasman 11 Pond View Drive Pittsford, NY 14534	Chief Strategist, Investor Relations Director	64	02/20/98	**
(8)	Joseph Alberti 1140 Hillsboro Cove Circle Webster, New York 14580	Director	55	10/31/02	**
(9)	Daniel R. Bickel 39 Whippletree Road Fairport, New York 14450	Director	56	10/31/02	**
(10)	Samuel M. Bronsky 6653 Main Street Williamsville, NY 14221	Chief Accounting Officer	43	04/01/98	**

\* Eric Steenburgh resigned as chairman of the board and chief executive officer, effective May 31, 2004. Effective June 15, 2004, Read D. McNamara became chairman of the board, Richard E. Ottalagana became chief executive officer and Philip A. Fain became chief financial officer.

**\*\*Changes in Control**

To the knowledge of the company's management, there are no present arrangements or pledges of the company's common stock which may result in a change of control of the company. The members of the Board of Directors shall serve until the next annual meeting of shareholders and until their successors are elected or appointed and shall have qualified, or until their prior resignation or termination.

**(b) Business Experience**

- (1) Read D. McNamara has over thirty years of senior executive experience in the US, Latin American and Asian markets with industry leaders such as Gillette, Pillsbury, Revlon and Bausch & Lomb. He combines extensive line operating experience in \$100+ Million business units with experience on the boards of both publicly and privately owned companies.
- (2) Richard E. Ottalagana was a co-founder of PaeTec Communications, a national communications company where he served as Executive Vice President. In less than five years, PaeTec became both net income and free cash flow positive with over 1,000 employees. In 2003, PaeTec was recognized as the second fastest growing technology firm in North America by Deloitte, LLP. From 1993 to 1998, Mr. Ottalagana served as Vice President/General Manager of ACC National Telecom Corp. where he was responsible for the start-up of ACC's local telecommunications operations bringing that Company to profitability with revenue approaching \$100 Million annually.
- (3) Co-Inventor with Vernon E. Gleasman on all Torvec patents, Mr. Gleasman's strengths include his extensive marketing and sales executive experience, in addition to his design and development knowledge. His particular expertise has been in the area of defining and demonstrating the products to persons within all levels of the automotive industry, race crew members, educators and students.
  - o As former Vice President of Sales for the unrelated Gleason Corporation (Power Systems Division), designed and conducted seminars on vehicle driveline systems for engineers at the U.S. army tank automotive command.
  - o Designed a complete nationwide after-market program for the Torsen Differential, which included trade show participation for the largest after-market shows in the U.S., SCORE and SEMA.
  - o Extensive after-market experience including pricing, distribution, sales catalogs, promotions, trade show booths designs and vehicle sponsorships.



- o Responsible for over 300 articles in trade magazines highlighting the Torsen Differential (e.g., Popular Science, Auto Week, Motor Trend, Off-Road, and Four Wheeler).
- o Designed FTV vehicle prototype, (from concept to assembly).
- o Assisted in developing engineering and manufacturing procedures for the Torsen Differential and for all of the Torvec prototypes.
- o Instructed race teams on use of the Torsen Differential (Indy cars, Formula 1, SCCA Trans-Am, IMSA, GTO, GTU, GT-1, NASCAR, truck pullers and off-road racers).
- o Has been trained for up-to-date manufacturing techniques such as NWH, statistical process control and MRP II.

Mr. Gleasman has extensive technical and practical experience, covering all aspect of the company's products such as, promotion, engineering and manufacturing.

- (4) Philip A. Fain, Managing Partner of CXO on the GO, LLC is widely recognized for his financial, business development and leadership expertise. He has served as CFO of Luxottica SpA's Ray-Ban Sun Optics business and as Vice President of Finance for Bausch & Lomb's Global Eyewear business. He played the lead role in significantly increasing the revenue, earnings and return on investment of the global business through the acquisition of some of the world's most sought after sunglass brands as well as through strategic alliances. A CPA, Mr. Fain has also lead Bausch & Lomb's Corporate Accounting, Financial Reporting and Corporate Audit functions.
- (5) Mr. Siconolfi was the owner and general manager of Panorama Dodge, Inc., Penfield New York from 1994-1995 and of Panorama Collision, Inc., East Rochester, New York from 1989-1995. He started and managed a highly successful auto/truck dealership and collision business, building the business to annual sales of \$20 million, with 5 departments and 65 employees.

Prior to opening the dealership and collision business, Mr. Siconolfi acquired an excellent foundation in the automotive business, working in sales, sales management and general management at Vanderstyne Ford, Schrieber Buick, Judge Motor Corporation and Meisenzahl Auto Parts, all in the Rochester area. He has completed 100+ programs sponsored by Chrysler Corporation, Ford Motor Company and General Motors in fields such as management, sales management, sales, customer relations, human resources and service training. He earned numerous awards given by these companies.

A very active participant in his community, Mr. Siconolfi is currently involved in commercial real estate.

- (6) Dr. Dobbs, Ph.D., P.E., has worked at every level from design engineer to technical director of an Army Major Commodity Command at the two-star level. He has worked as a hands-on engineer and scientist in industry and government, commanded field units, managed Army R & D programs and laboratories and currently has his own practice as a consultant engineer. He has the broad background needed to guide the company's growth and development.

During his career he has:

- o Worked as a manufacturing engineer.
- o Worked as a design engineer in the aircraft and missile industry.
- o Managed Army laboratories as a captain, lieutenant colonel and colonel.
- o Organized, implemented and operated the theater-wide "Red Ball Express" quick response supply system in Vietnam to get disabled weapons and other critical equipment repaired and back into combat as rapidly as possible.
- o Done basic research on multi-phase turbulent fluid dynamics supporting development of the gas turbine primary power system now used in the M1 Abrams Main Battle Tank (MBT).

- o Managed advanced development of the laser guided 155mm-artillery shell now known as the "Copperhead".
- o Served in Taiwan as a member of the U.S. Military Assistance Advisory Group (MAAG) working with the Republic of China Army General Staff.
- o Served as liaison officer between the Army and Air Force for development of the laser seeker for the Hellfire missile.
- o Guided development of a new family of tactical vehicles for the Army, including the High Mobility Multipurpose Wheeled Vehicle (HMMWV) now known as the "Hummer", which uses Vernon Gleasman's Torsen® differential.
- o Served as Technical Director of U.S. Army Tank-Automotive Command\* (TACOM), which then employed some 6,400 people and is responsible for all support of U.S. military ground vehicles (a fleet of 440,000) from development to ultimate disposal with a budget of nearly \$10 billion a year. He was also responsible for negotiation and management of military automotive R&D agreements with the French and German Ministries of Defense.

\* Now the U.S. Army Tank-automotive and Armaments Command.

At the end of 1985, Herbert H. Dobbs left government service and started his own consulting practice and began working with the Gleasman's to develop and market Vernon Gleasman's inventions. Herbert H. Dobbs holds a Ph.D. in Mechanical Engineering from the University of Michigan and is a registered professional engineer in Michigan. He holds several patents of his own and, among many affiliations, is a member of SAE, ASME, NSPE, AAAS, Sigma XI, AUSA, NDIA and the U.S. Army Science Board. The last named organization is a small group of senior technical and managerial people chosen from industry and academia to provide direct advice to the Secretary of the Army, the Chief of Staff, and the Department of the Army concerning issues of policy, budgets, doctrine, organization, training and technology.

(7) James A. Gleasman has been a consultant of the company since its inception. His business background includes the following:

- o Life-long entrepreneur.
- o Skilled in management, finance, strategic planning, organizing and marketing.
- o Co-inventor of the Gleasman steer drive mechanism.
- o Established manufacturing of the Torsen® Differential in Argentina, Brazil, etc.
- o Former principal with two companies formerly owned by the Gleasman family.
- o Set business strategies for small companies' dealings with large companies.
- o Joint venture partner with Clayton Brokerage Co. of St. Louis, MO.
- o Owned financial-consulting business.
- o Negotiated with numerous Asian Corporations (including Mitsubishi and Mitsui).
- o Educated in Asian philosophy, business practices and culture.

(8) Mr. Alberti was project manager for Johnson & Johnson's Clinical Diagnostics NAD facility from 1995-1998 where he transformed an existing 45,000 square feet warehouse facility to become a Food and Drug Administration regulated "clean room" manufacturing facility. He founded Alberti Associates in 1995 to provide project and facilities management services for industrial, pharmaceutical and commercial properties. From 1996-1998, Alberti Associates was retained by Boston University to provide project management services for abatement of environmental code violations..

- (9) Daniel R. Bickel is a partner in the accounting firm of Bickel & Dewar, C.P.A.'s, an accounting firm providing a variety of accounting services to small to medium sized business. The services provided include audits, reviews, compilations, business and personal consulting, business acquisition and sale assistance and income tax preparation. Mr. Bickel is a graduate of the Rochester Institute of Technology. He has been licensed in New York State as a certified public accountant for almost 30 years and is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. He has served as an officer and director of numerous non-profit and civic organizations.
- (10) Mr. Bronsky is the owner of a certified public accounting firm specializing in small to medium-sized businesses. Services include audits, reviews, compilations, and consulting services, including among other items, business valuations, computer applications, assisting in debt acquisition and consolidation, purchasing and selling of businesses and related tax ramifications, and general business assistance for clients. In addition, Mr. Bronsky has worked with various government agencies in a variety of audit contexts, including sales tax audits, IRS examinations. Mr. Bronsky is licensed in New York and is a member of the New York State Society of CPAs and the American Institute of CPAs. Mr. Bronsky is past treasurer and director of the Amherst Chamber of Commerce.

**(c) Family Relationships**

Vernon E. Gleasman died on November 18, 2004. He was the father of James A. Gleasman and Keith E. Gleasman who are brothers. There are no other family relationships between any directors or executive officers of the company, either by blood or by marriage.

**(d) Section 16(a) Beneficial Ownership Reporting Compliance**

Based upon its review of all of the copies of Forms 3 and 4 and 5 received by it, the company believes that, to the extent such Forms were required to be filed, such Forms were timely filed pursuant to Section 16 of the Securities Exchange Act of 1934, and that no director, officer and/or 10% shareholder required to file such Forms failed to either file them or file them in timely fashion.

**Item 10. EXECUTIVE COMPENSATION**

**Summary Compensation Table**

The following table sets forth the aggregate compensation paid or accrued to the company's chief executive officer and its other named executive officers and consultants by the company for services rendered during the fiscal year ending December 31, 2004:

<u>Name and Position</u>	<u>Long Term Compensation Awards</u>			
	<u>Annual Compensation</u>		<u>Options Granted</u>	<u>Stock Awards</u>
	<u>Salary</u>	<u>Consultants Fee</u>		
Eric Steenburgh (1) Chief Executive Officer	\$(1)	\$(1)	(1)	(1)
Richard E. Ottalagana (2) Chief Executive Officer and Secretary	\$(2)	\$(2)	(2)	(2)
Keith E. Gleasman President	\$(3)	\$(3)	(3)	(3)
Philip A. Fain (4) Chief Financial Officer and Secretary	\$(4)	\$(4)	(4)	(4)
James A. Gleasman Chief Strategist, Investor Relations	\$(5)	\$(5)	(5)	(5)
Vernon E. Gleasman Consultant	\$(6)	\$(6)	(6)	(6)
Samuel M. Bronsky Chief Accounting Officer	\$(7)	\$(7)	(7)	(7)

- (1) Mr. Steenburgh resigned as chief executive officer effective May 31, 2004. He was not compensated for the year ended December 31, 2004.
- (2) Richard E. Ottalagana became chief executive officer, effective June 15, 2004. He was compensated indirectly by the company in fiscal 2004 through the company's June 30, 2004 agreement with CXO on the GO, LLC. See footnote J to the company's financial statements on page 42. (F-24)
- (3) Mr. Gleasman provided services to the company during fiscal 2004 without compensation from the company. He sold 42,350 of his own shares during fiscal 2004 for proceeds of \$193,109 in lieu of receiving a consulting fee.
- (4) Philip A. Fain became chief financial officer, effective June 15, 2004 and secretary effective November 9, 2004. He was compensated indirectly by the company in fiscal 2004 through the company's June 30, 2004 agreement with CXO on the GO, LLC. See footnote J to the company's financial statements on page 42. (F-24)
- (5) Mr. Gleasman provided services to the company during fiscal 2004 without compensation from the company. He sold 41,350 of his own shares during fiscal 2004 for proceeds of \$180,251 in lieu of receiving a consulting fee.
- (6) Mr. Vernon Gleasman provided services to the company during fiscal 2004 without compensation from the company. He sold 16,500 of his own shares during fiscal 2004 for proceeds of \$71,405 in lieu of receiving a consulting fee.
- (7) Mr. Bronsky was paid \$25,200 for services rendered during fiscal 2004.

### Option/SAR Grants in Last Fiscal Year

The following table sets forth certain information for the named executive officers as well as the company's consultants with respect to the grant of options to purchase common stock during the fiscal year ended December 31, 2004.

<u>Name</u>	<u>Shares</u>	<u>% of Options</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
	<u>Underlying Options Granted</u>	<u>Granted</u>		
Eric Steenburgh *	0	0	\$ -	-
Richard E. Ottalagana	(1)	(1)	\$ (1)	(1)
Keith E. Gleasman	0	0	\$ -	-
Philip A. Fain	(1)	(1)	\$(1)	(1)
James A. Gleasman	0	0	\$ -	-
Vernon E. Gleasman	0	0	\$ -	-
Samuel M. Bronsky	0	0	\$ -	-

(1) See footnote J to the company's consolidated financial statements on page 42. (F-24)

### Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth certain information for the named executive officers as well as the company's consultants with respect to the exercise of options to purchase common stock during the fiscal year ended December 31, 2004 and the number and value of securities underlying unexercised options held by the named executive officers as well as the company's consultants as of such date.

<u>Name</u>	<u>Shares Acquired on Exercise</u>	<u>Value Realized</u>	<u>Number of Unexercised Options at December 31, 2004</u>		<u>Value of Unexercised In-the-Money Options at December 31, 2004(1)</u>	
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Eric Steenburgh *	0	0	0	0	\$0	\$0
Richard E. Ottalagana	(2)	(2)	(2)	(2)	\$(2)	\$(2)
Keith E. Gleasman	0	0	237,967	0	\$0	\$0
Philip A. Fain	(2)	(2)	(2)	(2)	\$(2)	\$(2)
James A. Gleasman	0	0	238,739	0	\$0	\$0
Vernon E. Gleasman	0	0	396,189	0	\$0	\$0
Samuel M. Bronsky	0	0	100,000	0	\$0	\$0

(1) The closing price of the company's common stock on December 31, 2004 was \$2.43 per share. Since the per share exercise price is \$5.00 under the option agreements, none of the options were "in-the-money" as of that date.

(2) See footnote J to the company's consolidated financial statements on page 42.

\* Mr. Steenburgh resigned as chairman of the board and chief executive officer, effective May 31, 2004.

### **Year 2004 Options**

No options were granted in the fiscal year ended December 31, 2004 under the company's 1998 Stock Option Plan.

### **1998 Stock Option Plan**

On December 1, 1997, the company's Board of Directors adopted the company's 1998 Stock Option Plan pursuant to which officers, directors, key employees and/or consultants of the company may be granted incentive stock options and/or non-qualified stock options to purchase up to an aggregate of 2,000,000 shares of the company's common stock. On May 27, 1998, the company's shareholders approved the 1998 Stock Option Plan. On December 17, 1998, the company registered the shares reserved for issuance under the 1998 Stock Option Plan under the Securities Act of 1933.

With respect to incentive stock options, the Plan provides that the exercise price of each such option must be at least equal to 100% of the fair market value of the common stock on the date that such option is granted (110% of fair market value in the case of shareholders who, at the time the option is granted, own more than 10% of the total outstanding common stock), and requires that all such options have an expiration date not later than the date which is one day before the tenth anniversary of the date of the grant of such options (or the fifth anniversary of the date of grant in the case of 10% shareholders). However, in the event that the option holder ceases to be an employee of the company, such option holder's incentive options immediately terminate. Pursuant to the provisions of the Plan, the aggregate fair market value, determined as of the date(s) of grant, for which incentive stock options are first exercisable by an option holder during any one calendar year cannot exceed \$100,000.

With respect to non-qualified stock options, the Plan permits the exercise price to be less than the fair market value of the common stock on the date the option is granted and permits Board discretion with respect to the establishment of the terms of such options. Unless the Board otherwise determines, in the event that the option holder ceases to be an employee of the company, such option holder's non-qualified options immediately terminate.

As of December 31, 2004, 1,673,895 options have been issued to directors and officers at an average exercise price of \$5.00 per share and 50,000 options have been issued to a key consultant at an exercise price of \$2.26 per share.

### **Business Consultants Stock Plan**

On June 2, 1999, the company created a Business Consultants Stock Plan and reserved 200,000 shares of the company's \$.01 par value common stock, which may be issued from time to time to business consultants and advisors who provide bona fide services to the company, provided that such services are not in connection with the offer or sale of securities of the company in a capital raising transaction and do not directly or indirectly promote or maintain a market for the company's securities.

With respect to the actual issuance by the company of shares for services rendered in accordance with the terms of the Plan, the per share value of such shares is equal to the closing price for the company's common stock on a date which is the date of the event triggering the issuance of the shares or is one business day immediately prior to such date as quoted in the over-the-counter market (OTCBB).

The Company registered the 200,000 shares reserved for issuance under the Business Consultants Stock Plan under the Securities Act of 1933, and the Registration Statement became effective on June 11, 1999. By virtue of such registration, business consultants, who are not affiliates of the Company, may immediately sell such shares in open market transactions without securities law restrictions.

On September 12, 2000, October 11, 2001 and December 13, 2001, the Board authorized an increase in the number of shares under the Plan by 200,000, 200,000, and 100,000 respectively. The company undertook to register the issuance of such shares under cover of Securities and Exchange Commission Form S-8, and such registration statements became effective on October 5, 2000, November 7, 2001 and December 21, 2001, respectively.

On January 24, 2002, the shareholders approved the number of shares reserved under the Plan by 800,000 and on September 30, 2002 and December 20, 2002, the Board authorized an increase in the number of shares reserved under the Plan by 250,000 and 250,000 respectively. The company undertook to register the issuance of such shares under cover of Securities and Exchange Commission Form S-8, and such registration statements became effective on February 1, 2002, November 12, 2002 and January 22, 2003, respectively.

On May 8, 2003 and October 2, 2003 the Board authorized an increase in the number of shares reserved under the Plan by 350,000 shares and 250,000 shares, respectively. The company undertook to register the issuance of such shares under the cover of Securities and Exchange Commission Form S-8 and such registration statements became effective on May 23, 2003 and November 26, 2003 respectively.

On April 20, 2004, the Board authorized an increase in the number of shares issued under the Plan by 2,500,000 shares. The company undertook to register the issuance of such shares under cover of Securities and Exchange Commission Form S-8 and such registration statement became effective on April 20, 2004.

For the fiscal year ending December 31, 2004, the company issued 469,883 shares of common stock under the Business Consultants Stock Plan.

#### **Nonmanagement Directors Plan**

On October 1, 2004, the Board of Directors approved a Nonmanagement Directors Plan pursuant to which each nonmanagement director is entitled to receive, on an annual basis for services rendered as a director, warrants to purchase 12,000 shares of the company's common stock at \$.01 per share. In addition, the chairman of the audit committee is entitled to receive, on an annual basis for services rendered as chairman, additional warrants for 5,000 shares of the company's common stock at \$.01 per share.

No director is eligible to receive warrants if he attends less than 75% of the meetings of the Board and any committee(s) of which he is a member.

For the fiscal year ended December 31, 2004, the company issued 53,000 warrants under the Nonmanagement Directors Plan.

#### **Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

##### **Security Ownership - Common Stock**

The following table presents information concerning the beneficial ownership of the shares of our common stock as of December 31, 2004 by:

- ☐ each person who is known by us to beneficially own more than 5% of our common stock;
- ☐ each of our directors;
- ☐ each of our named executive officers; and
- ☐ all of our directors and executive officers as a group.

The number and percentage of shares beneficially owned are based on 29,043,653 shares of common stock outstanding as of December 31, 2004. Beneficial ownership is determined under rules promulgated by the Securities and Exchange Commission. Shares of common stock subject to options that are exercisable on December 31, 2004 or exercisable within 60 days thereafter are deemed to be outstanding and beneficially owned by the person holding the options for the purpose of calculating the number of shares beneficially owned and the percentage ownership of that person, but are not deemed to be outstanding for the purpose of calculating the percentage ownership of any other person. Except as indicated in the footnotes to this table, these persons have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Owned</u>	<u>Percent of Shares Owned</u>
Margaret F. Gleasman 11 Pond View Drive Pittsford, NY 14534	3,091,150 <sup>(1)</sup>	10.5%

- (1) Includes 2,202,995 shares attributable to ownership by the Estate of Vernon E. Gleasman. Includes 25,000 shares which may be purchased through the exercise of a ten year option granted on December 1, 1997, exercisable at \$5.00 per share; 275,734 shares which may be purchased through exercise of a 5 year option granted on September 30, 2002 exercisable at \$5.00 per share; and 95,855 shares which may be purchased through exercise of a ten year option granted on December 22, 2003, exercisable at \$5.00 a share, all granted to Vernon E. Gleasman and owned, as of December 31, 2004 by the Estate of Vernon E. Gleasman.

<u>Name and Address of Beneficial Owner</u>	<u>Position</u>	<u>Number of Shares Owned</u>	<u>Percent of Shares Owned</u>
Read D. McNamara 777 Allens Creek Road Rochester, NY 14618	Chairman of the Board	500	less than 1%
Richard E. Ottalagana 965 Strong Road Victor, NY 14564	Chief Executive Officer	-	-%*
Keith E. Gleasman 11 Pond View Drive Pittsford, New York 14534	President Director	9,562,528(1)	32.22%
Philip A. Fain 35 Chelsea Park Pittsford, NY 14534	Chief Financial Officer Secretary	-	-%*
Gary A. Siconolfi 325 VanVoorhis Avenue Rochester, New York 14617	Director	175,002(2)	Less than 1%
Herbert H. Dobbs 448 West Maryknoll Road Rochester Hills, MI 48309	Director	452,850(3)	1.53%
James A. Gleasman 11 Pond View Drive Pittsford, New York 14534	Director	6,387,301(4)	21.45%



Joseph Alberti 1140 Hillsboro Cove Circle Webster, New York 14580	Director	170,000(5)	Less than 1%
Daniel R. Bickel 39 Whippletree Road Fairport, New York 14450	Director	42,100(6)	Less than 1%
Samuel M. Bronsky 6653 Main Street Williamsville, NY 14221	Chief Accounting Officer	147,160(7)	Less than 1%
All Executive Officers and Directors as a Group		16,937,441(8)	56.32%

\*See footnote J to the company's consolidated financial statements on page 42.

- (1) Includes 25,000 shares which may be purchased through the exercise of a ten year option granted on December 1, 1997, exercisable at \$5.00 per share. Includes 181,149 shares which may be purchased through the exercise of a 5 year option granted on September 30, 2002. Includes 31,818 shares which may be purchased through the exercise of a ten year option granted on December 22, 2003, exercisable at \$5.00 per share. Includes 1,400,000 shares held by the Vernon E. Gleasman Grandchildrens' Trust and 1,400,000 shares held by the Margaret F. Gleasman Grandchildrens' Trust of which Mr. Gleasman is co-trustee. Includes 1,666,666 shares held by the James A. Gleasman Childrens' Trust of which Mr. Gleasman is co-trustee.
- (2) Includes 100,000 shares which may be purchased through the exercise of a ten year option granted on October 15, 2003, exercisable at \$5.00 per share. Includes 12,000 common stock purchase warrants, exercisable at \$.01 per share granted under the Nonmanagement Directors Plan.
- (3) Includes 100,000 shares which may be purchased through the exercise of a ten year option granted on January 1, 1998, exercisable at \$5.00 per share. Includes 12,000 common stock purchase warrants, exercisable at \$.01 per share granted under the Nonmanagement Directors Plan.
- (4) Includes 25,000 shares which may be purchased through the exercise of a ten year option granted on December 1, 1997, exercisable at \$5.00 per share. Includes 270,164 shares which may be purchased through the exercise of a 5 year option granted on September 30, 2002. Includes 39,575 shares which may be purchased through the exercise of a ten year option granted on December 22, 2003, exercisable at \$5.00 per share. Includes 1,400,000 shares held by the Vernon E. Gleasman Grandchildrens' Trust and 1,400,000 shares held by the Margaret F. Gleasman Grandchildrens' Trust, of which Mr. Gleasman is co-trustee.
- (5) Includes 100,000 shares which may be purchased through the exercise of a ten year option granted on October 15, 2003, exercisable at \$5.00 per share. Includes 12,000 common stock purchase warrants, exercisable at \$.01 per share under the Nonmanagement Directors Plan.
- (6) Includes 25,000 shares which may be purchased through exercise of a ten year option granted on October 15, 2003, exercisable at \$5.00 per share. Includes 17,000 common stock purchase warrants, exercisable at \$.01 per share under the Nonmanagement Directors Plan.
- (7) Includes 100,000 shares which may be purchased through exercise of a ten year option granted on August 28, 2001, exercisable at \$5.00 per share.

- (8) Includes an aggregate 1,033,706 shares which may be purchased through the exercise of options all of which are exercisable at \$5.00 per share, 1,400,000 shares by the Vernon E. Gleasman Grandchildren's Trust, 1,400,000 held by the Margaret F. Gleasman Grandchildren's Trust and 1,666,666 held by the James A. Gleasman Children's Trust. The 2,800,000 shares owned by the Vernon and Margaret Gleasman's Grandchildren's Trusts are counted only once for this calculation.

#### **Security Ownership - Preferred Stock**

No director, officer, 5% owner or consultant owns any of our Class A or our Class B Preferred Stock.

#### **Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

##### **Certain Transactions**

During the ten plus years prior to the incorporation of the company, Vernon E., Keith E. and James A. Gleasman invented and patented numerous improvements relating to drive mechanisms for tracked vehicles, transmissions, hydraulic pumps/motors, a unique form of gearing, universal joints, and constant velocity joints as disclosed in such patents. Upon the company's incorporation, the Gleasman's assigned all their right, title and interest to and in such inventions and patents to the company in exchange for the issuance of 16,464,400 shares of the company's common stock and the agreement of the company to pay the Gleasman's the sum of \$365,000 for expenditures in the development of these inventions and products, the Gleasman's having agreed to waive and release the company from payment of any other expenses that they incurred in the development of these inventions and products. The Board of Directors of the company concluded that the value of the inventions, patents and patent applications assigned to the company, as well as the value of the services rendered, had a value in excess of the par value of the number of shares transferred to the assignors and service providers, respectively. Shares issued are fully paid and nonassessable.

On April 15, 1997, the company issued 1,000,000 shares of its \$.01 par value common stock to certain principals of LT Lawrence & Co., Inc. as compensation pursuant to the terms of a nonexclusive financial consulting agreement entered into February 11, 1997. LT Lawrence & Co., Inc. dissolved in March 1998, although the principals still hold the shares which were issued to them less any shares they may have sold. As a result of the same transaction, there are 125,000 outstanding consulting warrants which may be exercised if and when the company has an initial public offering of its common stock.

On June 29, 2000, the company announced that it had granted an exclusive, world-wide license of all its automotive technology to Variable Gear, LLC for the aeronautical and marine markets. Variable Gear will pay the company 4% royalties for 7 years after which the company can repurchase the license. Variable Gear is owned 51% by Robert C. Horton, Chairman and CEO of Ultrafab, Inc. and a company shareholder. The company owns the remaining 49%.

During 2001, the company borrowed \$28,000 from James A. Gleasman. This loan is payable on demand and bears no interest.

Other than as described herein, there have been no material transactions, series of similar transactions or currently proposed transactions to which the company was or is a party, in which the amount invested exceeds \$60,000 and in which any director or executive officer, or any security holder who is known to the company to own of record or beneficially more than five percent of the company's common stock, or any member of the immediate family of any of the foregoing persons, had a material interest.

**Item 13. EXHIBITS AND REPORTS ON FORM 8-K.****(a) Exhibits**

The following Exhibits, as applicable, are attached to this Annual Report (Form 10-KSB). The Exhibit Index is found on the page immediately succeeding the signature page and the Exhibits follow on the pages immediately succeeding the Exhibit Index.

- (2) Plan of acquisition, reorganization, arrangement, liquidation, or succession
  - 2.1 Agreement and Plan of Merger, dated November 29, 2000 by and among Torvec Subsidiary Corporation, Torvec, Inc., UTEK Corporation and ICE Surface Development, Inc. incorporated by reference to Form 8-K filed November 30, 2000 and Form 8K/A filed February 12, 2001.
- (3) Articles of Incorporation, By-laws
  - 3.1 Certificate of Incorporation, incorporated by reference to Form 10-SB/A , Registration Statement, registering Company's \$.01 par value common stock under section 12(g) of the Securities Exchange Act of 1934;
  - 3.2 Certificate of Amendment to the Certificate of Incorporation dated August 30, 2000, incorporated by reference to Form SB-2 filed October 19, 2000;
  - 3.3 Certificate of Correction dated March 22, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2002;
  - 3.4 By-laws, as amended by shareholders on January 24, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2002;
  - 3.5 Certification of Amendment to the Certificate of Incorporation dated October 21, 2004 setting forth terms and conditions of Class B Preferred, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2004.
- (4) Instruments defining the rights of holders including indentures
  - None
- (9) Voting Trust Agreement
  - None
- (10) Material Contracts
  - 10.1 Certain Employment Agreements, Consulting Agreements, certain assignments of patents, patent properties, technology and know-how to the Company, Neri Service and Space Agreement and Ford Motor Company Agreement and Extension of Term, all incorporated by reference to Form 10-SB/A, Registration Statement, registering Company's \$.01 par value common stock under section 12(g) of the Securities Exchange Act of 1934;
  - 10.2 The Company's 1998 Stock Option Plan and related Stock Options Agreements, incorporated by reference to Form S-8, Registration Statement, registering 2,000,000 shares of the Company's \$.01 par value common stock reserved for issuance thereunder, effective December 17, 1998;

- 10.3 The Company's Business Consultants Stock Plan, incorporated by reference to Form S-8, Registration Statement, registering 200,000 shares of the Company's \$.01 par value common stock reserved for issuance thereunder, effective June 11, 1999, as amended by reference to Form S-8 Registration Statements registering an additional 200,000, 200,000, 100,000, 800,000, 250,000, 250,000, 350,000, 250,000, and 2,500,000 shares of the Company's \$.01 par value common stock reserved for issuance thereunder, effective October 5, 2000, November 7, 2001, December 21, 2001, February 1, 2002, November 12, 2002, January 22, 2003, May 23, 2003, November 26, 2003, and April 20, 2004 respectively;
- 10.4 Termination of Neri Service and Space Agreement dated August 31, 1999, incorporated by reference to Form 10-QSB filed for the quarter ended September 30, 1999;
- 10.5 Operating Agreement of Variable Gear, LLC dated June 28, 2000, incorporated by reference to Form 10-QSB filed for the quarter ended June 30, 2000;
- 10.6 License Agreement between Torvec, Inc. and Variable Gear, LLC dated June 28, 2000, incorporated by reference to Form SB-2 filed October 19, 2000;
- 10.7 Investment Agreement with Swartz Private Equity, LLC dated September 5, 2000, together with attachments thereto, incorporated by reference to Form 8-K filed October 2, 2000;
- 10.8 Extension of and Amendment to Consulting Agreement with James A. Gleasman, incorporated by reference to Form 10-KSB filed for the fiscal year ended December 31, 2000;
- 10.9 Extension of and Amendment to Consulting Agreement with Keith E. Gleasman, incorporated by reference to Form 10-KSB filed for the fiscal year ended December 31, 2000;
- 10.10 Extension of and Amendment to Consulting Agreement with Vernon E. Gleasman, incorporated by reference to Form 10-KSB filed for the fiscal year ended December 31, 2000;
- 10.11 Option and Consulting Agreement with Marquis Capital, LLC dated February 10, 1999, incorporated by reference to Form 10-QSB filed for quarter ended March 31, 2001;
- 10.12 Option and Consulting Agreement with PMC Direct Corp., dated February 10, 1999, incorporated by reference to Form 10-QSB filed for quarter ended March 31, 2001;
- 10.13 Investment Banking Services Agreement with Swartz Institutional Finance (Dunwoody Brokerage Services, Inc.) dated December 8, 2000, incorporated by reference to Form 10-QSB filed for quarter ended March 31, 2001;
- 10.14 Employment Agreement with Michael Martindale, Chief Executive Officer, dated August 1, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;
- 10.15 Employment Agreement with Jacob H. Brooks, Chief Operating Officer,

- dated August 1, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;
- 10.16 Employment Agreement with David K. Marshall, Vice-President of Manufacturing, dated September 1, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;
  - 10.17 Investment Banking Services Agreement with Swartz Institutional Finance (Dunwoody Brokerage Services, Inc.), as amended, dated October 23, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;
  - 10.18 Stock Option Agreement with Samuel Bronsky, Chief Financial and Accounting Officer, dated August 28, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;
  - 10.19 Pittsford Capital Group, LLC Agreement dated January 30, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2001;
  - 10.20 Gleasman-Steenburgh Indemnification Agreement dated April 9, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2001;
  - 10.21 Series B Warrant dated April 10, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2001;
  - 10.22 Billow Butler & Company, LLC investment banking engagement letter dated October 1, 2003, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2003;
  - 10.23 Letter of Acknowledgement and Agreement with U.S. Environmental Protection Agency dated February 4, 2004, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2003;
  - 10.24 Letter Agreement with CXO on the GO, L.L.C. dated February 20, 2004, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2003;
  - 10.25 Letter Amendment with CXO on the GO, L.L.C. dated February 23, 2004, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2003;
  - 10.26 Letter Agreement with CXO on the GO, LLC dated June 30, 2004, incorporated by reference to Form 10-QSB filed for fiscal quarter ended June 30, 2004;
  - 10.27 Lease Agreement for premises at Powder Mills Office Park, 1169 Pittsford-Victor Road, Suite 125, Pittsford, New York 14534, dated July 16, 2004; incorporated by reference to Form 10-QSB filed for fiscal quarter ended June 30, 2004;
  - 10.28 Lease Agreement for testing facility and Mustang dynamometer, dated July 21, 2004; incorporated by reference to Form 10-QSB filed for fiscal quarter ended June 30, 2004;

- 10.29 Advisory Agreement with PNB Consulting, LLC, 970 Peachtree Industrial Blvd., Suite 303, Suwanee, Georgia 30024; incorporated by reference to Form 10-QSB filed for fiscal quarter ended June 30, 2004;
  - 10.30 Agreement between Torvec and ZT Technologies, Inc. dated July 21, 2004, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2004;
  - 10.31 Assignment and Assumption of Lease between William J. Green and Ronald J. Green and Torvec, Inc. effective as of December 31, 2004;
  - 10.32 Bill of Sale between Dynamx, Inc. and Torvec, Inc. for equipment and machinery;
  - 10.33 Lease and Services Agreement between Robert C. Horton as Landlord and Torvec, Inc. as Tenant dated March 18, 2005;
- 
- (11) Statement re computation of per share earnings (loss)  
Not applicable
  - (14) Code of Ethics
  - (16) Letter on change in certifying accountant  
None
  - (18) Letter re change in accounting principles  
None
  - (20) Other documents or statements to security holders  
None
  - (21) Subsidiaries of the registrant  
Ice Surface Development, Inc. (New York)  
Iso-Torque Corporation (New York)  
IVT Diesel Corp. (New York)  
Variable Gear, LLC (New York)
  - (22) Published report regarding matters submitted to vote of security holders  
None
  - (23.1) Consents of experts and counsel  
Eisner LLP Consent
  - (24) Power of attorney  
None
  - (31) Rule 13(a)-14(a)/15(d)-14(a) Certifications

(32) Section 1350 Certifications

(99) Additional exhibits

None

**(b) Reports Filed on Form 8-K**

None

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees**

The aggregate amount the company was billed for professional services rendered by Eisner LLP for the audit of the company's annual financial statements, for the review of the company's financial statements included in the company's quarterly reports filed with the Securities and Exchange Commission, and for services normally provided in connection with statutory and regulatory filings or engagements for each of the immediately preceding two fiscal years were:

<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
\$70,500	\$70,000	\$78,500

**Audit Related Fees**

The aggregate amount of the company was billed for professional services rendered by Eisner LLP for audit related services for each of the immediately preceding two fiscal years were:

<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
\$23,000	\$7,500	\$3,000

These services specifically included registration statement review and assisting the Audit Committee in fulfilling its responsibilities in connection with the financial reporting process and services rendered in connection with the requirement that Eisner LLP timely report to the Audit Committee regarding critical accounting policies and practices, regarding alternative accounting treatments of financial information within generally accepted accounting principles that have been discussed with management and regarding any other material, written information provided by Eisner LLP to the Audit Committee in order to facilitate auditor and management oversight by the Audit Committee.

**Tax Fees**

The aggregate amount the company was billed for professional services rendered by Eisner LLP for tax compliance, tax planning and tax advice for each of the immediately preceding two fiscal years were:

<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
\$ - -	\$ - -	\$ - -

These services specifically included:

- tax return compliance for federal and state income/franchise tax purposes: and

- advice and/or opinions on tax planning and tax reporting matters, including research, discussions, preparation of memorandums and attendance at meetings, as mutually determined to be necessary, including but not limited to the following areas - international taxes, mergers, acquisitions and divestitures, employee compensation, benefits and related reporting requirements, accounting methods, response to inquiries and notices regarding federal and state taxes.

### **All Other Fees**

The aggregate amount the company was billed for professional services rendered by Eisner LLP for all legally permissible non-audit services, other than audit-related services and tax services, for each of the immediately preceding two fiscal years were:

Fiscal 2002  
\$ - -

Fiscal 2003  
\$ - -

Fiscal 2004  
\$ - -

### **Pre-Approval of Policies and Procedures**

Article II of our Audit Committee Charter, as amended, specifically provides that the Audit Committee must pre-approve all auditing and legally permissible non-auditing services to be performed by the company's registered public accounting firm. In accordance with such mandate, at a meeting held on January 15, 2003, the Audit Committee established a set of procedures governing the pre-approval process. Under the procedure, for each fiscal year, the Committee first shall determine the general nature and scope of the audit, audit-related, tax and other legally permissible non-audit services to be performed by the company's registered accounting firm. Prior to the performance of any services, the Committee shall require such firm to submit to the Committee one or more engagement letter(s) delineating specific audit, audit-related, tax and other legally permissible non-audit services to be rendered (together with a schedule of fees with respect to each of such services). Upon receipt of such engagement letter(s), the Committee shall review and approve such engagement letter(s) in advance of the performance of any such services, including the specific advance approval of fees in connection with each of such services. Upon approval and execution of each of such engagement letter(s) by the Committee, the registered public accounting firm shall perform such pre-approved services in accordance with the terms and conditions of each engagement letter and shall not engage in any other services unless each of said services, if any, shall have been specifically approved (including the specific approval of all fees associated therewith) by the Audit Committee in advance of the rendering any such service.

### **Audit -Committee Approval**

The Audit Committee pre-approved 100% of the services rendered by Eisner LLP in accordance with such Committee's Pre-Approval Policies and Procedures.



### FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that are based on current expectations, estimates and projections about the company and its plans for future operation as well as management's beliefs and assumptions. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

The Future Factors that may affect the company, its plans for its future operations and performance and results of the company's future business include, but are not limited to, the following:

- a. the company's ability to raise or borrow significant capital to fund its business plan;
- b. the company's ability to enter into collaborative joint working arrangements, formal joint venture arrangements and/or licensing arrangements with domestic and/or foreign governments, automotive industry manufacturers and suppliers to manufacture and promote the company's inventions;
- c. industry and consumer acceptance of the company's inventions;
- d. the level of competition and resistance in the automotive and related industries;
- e. general economic and competitive conditions in the markets and countries in which the company will operate, and the risks inherent in any future international operations;
- f. the strength of the U.S. dollar against currencies of other countries where the company may operate, as well as cross-currencies between the company's future operations outside of the U.S. and other countries with whom it transacts business.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statements. The Company does not intend to update forward-looking statements.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TORVEC, INC.

Date: April 11, 2005

By: /S/ PHILIP A. FAIN  
Philip A. Fain, Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: April 11, 2005

By: /S/ PHILIP A. FAIN  
Philip A. Fain, Chief Executive Officer, Chief Financial Officer, Secretary

Dated: April 11, 2005

By: /S/ KEITH E. GLEASMAN  
Keith E. Gleasman, President and Director

Dated: April 11, 2005

By: /S/ GARY SICONOLFI  
Gary Siconolfi, Director

Dated: April 11, 2005

By: /S/ DANIEL R. BICKEL  
Daniel R. Bickel, Director

Dated: April 11, 2005

By: /S/ HERBERT H. DOBBS  
Herbert H. Dobbs, Director

Dated: April 11, 2005

By: /S/ JAMES A. GLEASMAN  
James A. Gleasman, Director

Dated: April 11, 2005

By: /S/ READ D. MCNAMARA  
Read D. McNamara, Director

Dated: April 11, 2005

By: /S/ SAMUEL M. BRONSKY  
Samuel M. Bronsky, Chief Accounting Officer

**EXHIBIT INDEX**

<b><u>EXHIBIT</u></b>		<b><u>PAGE</u></b>
(2)	Plan of acquisition, reorganization, arrangement, liquidation, or succession	
2.1	Agreement and Plan of Merger, dated November 29, 2000 by and among Torvec Subsidiary Corporation, Torvec, Inc., UTEK Corporation and ICE Surface Development, Inc. incorporated by reference to Form 8-K filed November 30, 2000 and Form 8K/A filed February 12, 2001.	N/A
(3)	Articles of Incorporation, By-laws	
3.1	Certificate of Incorporation, incorporated by reference to Form 10-SB/A , Registration Statement, registering Company's \$.01 par value common stock under section 12(g) of the Securities Exchange Act of 1934;	N/A
3.2	Certificate of Amendment to the Certificate of Incorporation dated August 30, 2000, incorporated by reference to Form SB-2 filed October 19, 2000;	N/A
3.3	Certificate of Correction dated March 22, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2002;	N/A
3.4	By-laws, as amended by shareholders on January 24, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2002;	N/A
3.5	Certification of Amendment to the Certificate of Incorporation dated October 21, 2004 setting forth terms and conditions of Class B Preferred, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2004.	N/A
(4)	Instruments defining the rights of holders including indentures	
	None	N/A
(9)	Voting Trust Agreement	
	None	N/A
(10)	Material Contracts	
10.1	Certain Employment Agreements, Consulting Agreements, certain assignments of patents, patent properties, technology and know-how to the Company, Neri Service and Space Agreement and Ford Motor Company Agreement and Extension of Term, all incorporated by reference to Form 10-SB/A, Registration Statement, registering Company's \$.01 par value common stock under section 12(g) of the Securities Exchange Act of 1934;	N/A

10.2	The Company's 1998 Stock Option Plan and related Stock Options Agreements, incorporated by reference to Form S-8, Registration Statement, registering 2,000,000 shares of the Company's \$.01 par value common stock reserved for issuance thereunder, effective December 17, 1998;	N/A
10.3	The Company's Business Consultants Stock Plan, incorporated by reference to Form S-8, Registration Statement, registering 200,000 shares of the Company's \$.01 par value common stock reserved for issuance thereunder, effective June 11, 1999 as amended by reference to Form S-8 Registration Statement registering an additional 200,000, 200,000, 100,000, 800,000, 250,000, 250,000, 350,000, 250,000 and 2,500,000 shares of the Company's \$.01 par value common stock reserved for issuance thereunder, effective October 5, 2000, November 7, 2001, December 21, 2001, February 1, 2002, November 12, 2002, January 22, 2003, May 23, 2003, November 26, 2003 and April 20, 2004 respectively;	N/A
10.4	Termination of Neri Service and Space Agreement dated August 31, 1999, incorporated by reference to Form 10-QSB filed for the quarter ended September 30, 1999;	N/A
10.5	Operating Agreement of Variable Gear, LLC dated June 28, 2000, incorporated by reference to Form 10-QSB filed for the quarter ended June 30, 2000;	N/A
10.6	License Agreement between Torvec, Inc. and Variable Gear, LLC dated June 28, 2000, incorporated by reference to Form SB-2 filed October 19, 2000;	N/A
10.7	Investment Agreement with Swartz Private Equity, LLC dated September 5, 2000, together with attachments thereto, incorporated by reference to Form 8-K filed October 2, 2000;	N/A
10.8	Extension of and Amendment to Consulting Agreement with James A. Gleasman, incorporated by reference to Form 10-KSB filed for the fiscal year ended December 31, 2000;	N/A
10.9	Extension of and Amendment to Consulting Agreement with Keith E. Gleasman, incorporated by reference to Form 10-KSB filed for the fiscal year ended December 31, 2000;	N/A
10.10	Extension of and Amendment to Consulting Agreement with Vernon E. Gleasman, incorporated by reference to Form 10-KSB filed for the fiscal year ended December 31, 2000;	N/A
10.11	Option and Consulting Agreement with Marquis Capital, LLC dated February 10, 1999, incorporated by reference to Form 10-QSB filed for quarter ended March 31, 2001;	N/A
10.12	Option and Consulting Agreement with PMC Direct Corp., dated February 10, 1999, incorporated by reference to Form 10-QSB filed for quarter ended March 31, 2001;	N/A

10.13	Investment Banking Services Agreement with Swartz Institutional Finance (Dunwoody Brokerage Services, Inc.) dated December 8, 2000, incorporated by reference to Form 10-QSB filed for quarter ended March 31, 2001;	N/A
10.14	Employment Agreement with Michael Martindale, Chief Executive Officer, dated August 1, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;	N/A
10.15	Employment Agreement with Jacob H. Brooks, Chief Operating Officer, dated August 1, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;	N/A
10.16	Employment Agreement with David K. Marshall, Vice-President of Manufacturing, dated September 1, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;	N/A
10.17	Investment Banking Services Agreement with Swartz Institutional Finance (Dunwoody Brokerage Services, Inc.), as amended, dated October 23, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;	N/A
10.18	Stock Option Agreement with Samuel Bronsky, Chief Financial and Accounting Officer, dated August 28, 2001, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2001;	N/A
10.19	Pittsford Capital Group, LLC Agreement dated January 30, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2001;	N/A
10.20	Gleasant-Steenburgh Indemnification Agreement dated April 9, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2001;	N/A
10.21	Series B Warrant dated April 10, 2002, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2001;	N/A
10.22	Billow Butler & Company, LLC investment banking engagement letter dated October 1, 2003, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2003;	N/A
10.23	Letter of Acknowledgement and Agreement with U.S. Environmental Protection Agency dated February 4, 2004, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2003;	N/A
10.24	Letter Agreement with CXO on the GO, L.L.C. dated February 20, 2004, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2003;	N/A
10.25	Letter Amendment with CXO on the GO, L.L.C. dated February 23, 2004, incorporated by reference to Form 10-KSB filed for fiscal year ended December 31, 2003;	N/A
10.26	Letter Agreement with CXO on the GO, LLC dated June 30, 2004, incorporated by reference to Form 10-QSB filed for fiscal quarter ended June 30, 2004;	N/A

10.27	Lease Agreement for premises at Powder Mills Office Park, 1169 Pittsford-Victor Road, Suite 125, Pittsford, New York 14534, dated July 16, 2004; incorporated by reference to Form 10-QSB filed for fiscal quarter ended June 30, 2004;	N/A
10.28	Lease Agreement for testing facility and Mustang dynamometer, dated July 21, 2004; incorporated by reference to Form 10-QSB filed for fiscal quarter ended June 30, 2004;	N/A
10.29	Advisory Agreement with PNB Consulting, LLC, 970 Peachtree Industrial Blvd., Suite 303, Suwanee, Georgia 30024; incorporated by reference to Form 10-QSB filed for fiscal quarter ended June 30, 2004;	N/A
10.30	Agreement between Torvec and ZT Technologies, Inc. dated July 21, 2004, incorporated by reference to Form 10-QSB filed for fiscal quarter ended September 30, 2004;	N/A
10.31	Assignment and Assumption of Lease between William J. Green and Ronald J. Green and Torvec, Inc. effective as of December 31, 2004;	69
10.32	Bill of Sale between Dynamx, Inc. and Torvec, Inc. for equipment and machinery;	78
10.33	Lease and Services Agreement between Robert C. Horton as Landlord and Torvec, Inc. as Tenant dated March 18, 2005;	80
(11)	Statement re computation of per share earnings (loss)  Not applicable	
(14)	Code of Ethics	
(16)	Letter on change in certifying accountant  None	
(18)	Letter re change in accounting principles  None	
(20)	Other documents or statements to security holders  None	
(21)	Subsidiaries of the registrant Ice Surface Development, Inc. (New York) Iso-Torque Corporation (New York) IVT Diesel Corp. (New York) Variable Gear, LLC (New York)	
(22)	Published report regarding matters submitted to vote of security holders  None	
(23)	Consents of experts and counsel	

(23.1)	Eisner LLP Consent	83
(24)	Power of attorney	
	None	
(31)	Rule 13(a)-14(a)/15(d)-14(a) Certifications	84
(32)	Section 1350 Certifications	86
(99)	Additional exhibits	
	None	

**EXHIBIT 10.31**

## Assignment and Assumption of Lease

Dynamx, Inc., a New York State business corporation located at 7 Bryden Park, Webster, New York 14580, William J. Green and Ronald J. Green hereby transfer and assign all of their rights to and in that certain Lease and Lease Agreement dated March 3, 2004 for the premises located at 750 Basket Road as Tenant thereunder to Torvec, Inc, a New York State business corporation located at Powder Mills Office Park, 1169 Pittsford- Victor Road Suite 125, Pittsford, New York 14534, effective as of December 31, 2004.

Torvec Inc. hereby assumes such Lease and Lease Agreement and hereby agrees to be bound by all of the covenants contained therein as New Tenant thereunder effective as of December 31, 2004.

IN WITNESS WHEREOF, the parties have duly executed this Assignment and Assumption Agreement dated December 31, 2004.

Dynamx, Inc.

By: /S/RONALD J. GREEN  
Ronald J. Green

Torvec, Inc.

By: /S/PHILIP A. FAIN  
Philip A. Fain

/S/WILLIAM J. GREEN  
William J. Green

/S/RONALD J. GREEN  
Ronald J. Green



LEASE AGREEMENT

This Lease Modification and Assumption made as of the 31st day of December 2004 between Imaging Realty Group LLC with a principal place of business located at 545 Basket Road-Webster, New York 14580 ("Landlord") and Dynamx, Inc. in which William J. Green and Ronald J. Green are principals with a home address of 7 Bryden Park, Webster, New York 14580 ("Tenant") and Torvec, Inc. with a principal place of business of 11 Pond View Drive, Pittsford, New York 14534 ("New Tenant").

WHEREAS, Dynamx, Inc. wishes to transfer its original LEASE AGREEMENT dated March 3, 2004 to Torvec, Inc.

THEREFORE, in consideration of the mutual consent of all parties executed herein, Imaging Realty Group LLC shall allow the assumption of the LEASE AGREEMENT with all covenants contained in the Tenant's Lease shall become binding to the New Tenant on December 31, 2004.

The original lease agreement is contained as Schedule A.

IN WITNESS HEREOF, the parties hereto have duly executed this Lease as of the day and year written.

LANDLORD:

IMAGING REALTY GROUP LLC

/S/WILLIAM G. BOULTER

BY: William G. Boulter, Member

TENANT:

DYNAMX, INC.

/S/WILLIAM J. GREEN

BY: William J. Green, President

NEW TENANT:

TORVEC, INC.

/S/PHILIP A. FAIN

BY: Philip A. Fain, Chief Financial Officer

STATE OF NEW YORK)  
COUNTY OF MONROE) SS:

On this 4th day of January, 2005 before me personally came WILLIAM G. BOULTER, to me known who is being duly sworn did depose that he resides in Webster, New York and is a member of IMAGING REALTY GROUP LLC which executed the foregoing instrument, and he duly acknowledged to me that he signed his name to said instrument for and on behalf of said Limited Liability Corporation.

/S/MICHELE M. RHODA

Michele M. Rhoda  
Notary Public

STATE OF NEW YORK)  
COUNTY OF MONROE) SS:

On this 27th day of December, 2004 before me personally came William J. Green, who being by me duly sworn did depose and say that he resides in Pittsford, New York and that he is the President of DYNAMX, INC. described herein and which executed the foregoing instrument and he duly acknowledged to me that he signed his name to the said instrument for and on behalf of said corporation.

/S/TAMMY B. LEVINSON

Tammy B. Levinson  
Notary Public

STATE OF NEW YORK)  
COUNTY OF MONROE) SS:

On this 29th day of December, 2004 before me personally came PHILIP FAIN, who being by me duly sworn did depose and say that he resides in Pittsford, New York and that he is the Chief Financial Officer of TORVEC, INC. described herein and which executed the foregoing instrument and he duly acknowledged to me that he signed his name to the said instrument for and on behalf of said corporation.

/S/RICHARD B. SULLIVAN

Richard B. Sullivan  
Notary Public

Schedule A

### LEASE AGREEMENT

This Lease made as of the 3rd day of March 2004 between Imaging Realty Group LLC with a principal place of business located at 545 Basket Road, Webster, New York 14580 ("Landlord") and Dynamx, Inc. in which William J. Green and Ronald J. Green are principals with a home address of 7 Bryden Park, Webster, New York 14580 ("Tenant")

In consideration of the mutual covenants contained in this Lease, Landlord and Tenant agree as follows:

1. LEASED PREMISES

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, 2,950 square feet of garage space located at 750 Basket Road, Webster, New York ("Premises").

2. TERM

The term of this Lease shall be for three (3) years commencing March 1, 2004 and ending February 28, 2007.

3. PURPOSE

The Premises may be used as an automobile storage and repair facility.

4. RENT

Tenant agrees to pay the Landlord monthly rental as follows:

March 1, 2004 through August 1, 2004	\$1,000.00
September 1, 2004 through February 1, 2007	\$1,500.00

This lease is understood to be a gross lease in which the Landlord is directly responsible for water, real property taxes and snowplowing. Tenant shall be responsible for utilities, trash and recycle removal, snow shoveling and salting, telephone service, ongoing cleaning and vermin control within the space.

The present rent schedule is based upon the Tenant occupying the first bay only of the facility. Upon acceptance of Bay #2 and Bay #3 the rent payment will change as follows:

	<u>Additional Sq. Feet</u>	<u>Additional per month</u>
Bay #2	420 square feet	\$150
Bay #3	562 square feet	\$450

Occupancy of the additional space can occur anytime during the initial term of this lease agreement upon thirty (30) days written notification to the Landlord.

The Landlord shall afford the tenant the right of first refusal to lease the remaining Bay #2 or Bay #3 during the term of this Lease Agreement or any extension thereof. If the Landlord desires to enter into an arms length Lease Agreement for the vacant Bays during the term of this Agreement, or any extensions thereof, Landlord shall immediately give Tenant written notice pursuant to paragraph 15 of this Lease Agreement. The Tenant shall then have ten (10) days of Notice to provide Landlord with a written acceptance of additional space pursuant to the above mentioned schedule.

5. SECURITY DEPOSIT

Landlord will require a security deposit in the amount of \$3,000 which will be paid over the first six months

## 6. EXPENSES

In addition to the Rent, Tenant shall pay directly the cost incurred by the Landlord in connection with its occupancy of the building. Both Landlord and Tenant shall approve expenses for this property prior to occupancy. These costs will be billed directly by the Landlord at the acceptance of the space by the Tenant and shall not exceed \$6,000. In the event that such costs exceed the initial estimate, Landlord and or its agents, shall notify Tenant in writing. This will be a one-time expense and shall be payable in half at time of occupancy. The balance of expense is included in Section 5.

## 7. COVENANT TO PAY RENT

Tenant shall pay rent required by this Lease on the first day of each month. Payment is due and payable at the above-mentioned address. Rent received after the fifth (5th) day of the month shall be subject to a five percent (5%) late charge.

## 8. CARE AND REPAIR OF PREMISES

Tenant shall commit to no act of waste and shall take good care of the Premises and the fixtures and appurtenances therein, and shall, in the use and occupancy of the Premises, conform to all laws, orders and regulation of the Federal, State and Municipal governments. Landlord shall make all Structural repairs and repairs caused by fire or other casualty.

## 9. INSURANCE

Landlord shall obtain fire and extended casualty insurance protection for the Premises. Landlord shall be entitled to all proceeds from that insurance and Tenant shall have no claim to those proceeds. Tenant shall not do or permit anything to be done which will increase the insurance premiums or which would be a violation of the rule of the New York Fire Insurance Underwriters.

During the term of this Lease the Tenant shall maintain at its sole cost and expense, \$100,000 contents and general public liability insurance insuring both Landlord and Tenant against claims for bodily injury, death or property damage occurring upon, in or about the Premises for not less than \$1,000,000 for combined bodily injury and property damage. Landlord shall be named as additional insured on such policy

## 10. WAIVER OF SUBROGATION

Notwithstanding any provision of this Lease, in any event of loss or damage to the Building, the Premises and/or contents, each party shall look first to any insurance in its favor before making any claim against the other party, and to the extent possible without additional cost, each party shall obtain, for each policy of such insurance, provisions permitting waiver of any claim against the other party for loss or damage within the scope of the insurance, and each party, to such extent permitted, for itself and its insurers waive such insured claims against the other party.

#### 11. DEFAULT REMEDIES

If Tenant defaults in the payment of Rent payable to Landlord or defaults in the performance of any material covenants or conditions hereof, Landlord may give to Tenant notice of such default and if Tenant does not pay any Rent payable to Landlord within five days, or cure any other default within ten days, then Landlord may terminate this Lease on not less than five days' notice to the Tenant.

#### 12. SUBORDINATION

This Lease shall be subject and subordinate to mortgages which may now or hereafter affect the real property of which the Premises are a part and to all renewal, modifications consolidation and replacements of said mortgages.

#### 13. RENEWAL OPTIONS

Provided Tenant is not in default and no event has occurred that with the passage of time would constitute a default hereunder, the Tenant shall have the option to extend the term of this Lease for two (2) additional periods of two (2) years each, commencing on the date immediately following the last date of the original term of this Lease, or the first option term as the case may be. Tenant can exercise this option by giving written notice to Landlord no later than four (4) months prior to the expiration of the original term hereof or the first option term. Rental rate at time of the first renewal option shall be three percent above the annual rental rate for the first extension period and three percent above the annual rental rate of the second option term.

#### 14. SIGNAGE

Tenant shall not erect any signs to the premises without prior Landlord approval.

#### 15. NOTICES

Any notice by either party to the other shall be in writing and shall be deemed to be duly given only if delivered personally or mailed by registered or certified mail return. Notices are to be delivered as follows:

Tenant:

Mr. William J. Green  
7 Bryden Park  
Webster, NY 14580

Mr. Ronald J. Green  
10 VanCortland Drive  
Pittsford, NY 14534

Landlord:

Imaging Realty Group LLC  
Mr. William G. Boulter  
545 Basket Road  
Webster, NY 14580

#### 16. LANDLORD'S RIGHT TO INSPECT AND REPAIR

Landlord may enter the Premises at any reasonable time, on reasonable notice to Tenant for the purposes of inspection or the making of repairs, replacements and

additions to the Premises. Tenant shall have no claim or cause of action against the Landlord by reason thereof.

17. NO REPRESENTATIONS

Neither party has made any representation or promises, except as contained herein, or in some further writing signed by the party making such representation or promise.

18. QUIET ENJOYMENT

Landlord covenants that if so long as Tenant pays the Rent and performs the Covenants hereof, Tenant shall peaceably and quietly have, hold and enjoy the Premises for the Terms herein mentioned.

19. TENANT'S ESTOPPEL

Tenant shall from time to time, upon not less than ten days written notice, execute a written statement certifying that this Lease is unmodified and in full force effect. Tenant shall also indicate dates that the Rental and other charges are paid and whether or not the Landlord is in default hereunder. It is being intended that a prospective purchaser of Landlord's interest or mortgagee of Landlord's interest or assignee of any mortgage upon Landlord's interest in the Building may rely upon any such statement delivered pursuant to this Section.

20. WAIVER OF JURY TRIAL

To the extent such waiver is permitted by law, the parties waive trial by jury in any action or proceeding brought in connection with this Lease.

21. BROKERAGE

The Landlord and Tenant represent that no broker brought about this Lease Agreement and that no one is being paid any fee or other compensation on account of making this Lease. Each party indemnifies and agrees to defend and hold the other harmless from claims arising out of one's own acts or conduct as the case may be.

22. ENVIRONMENTAL PROVISIONS

Tenant acknowledges that there are certain federal, state, and local laws in effect and additional laws that may hereafter be enacted relating to or affected the Premises. The Tenant will not cause, or permit to be caused any act by negligence, omission or otherwise that would result in any violation of these laws. Any violation shall be an event of default under this Lease.

Tenant Covenants and agrees to take actions required now or in the future by the New York State Department of Environmental Conservation et al, with regard to all environmental matters. Tenant agrees that if Tenant fails to take such action as is required; Landlord may take such action and will be indemnified by Tenant for any and all damages.

Any dispute between the Landlord relating to the existence or extent of any environmental problem on the premises shall be resolved by arbitration in Rochester, New York in accordance with the rules of the American Arbitration Association and all such proceedings, testimony and other evidence shall be strictly confidential.

If any environmental contamination or other environmental problems are found on the property for which any response or other removal, remedial or other type of

action is required pursuant to law, order, rules, regulation or governmental action, Tenant agrees it will at its sole cost take such action promptly and to the Landlord's satisfaction.

23. PERSONAL LIABILITY

Anything to the contrary contained in this Lease notwithstanding, the covenants contained in this Lease to be performed by Landlord shall not be binding personally, but instead such covenants are made for the purpose of binding only the Landlord's interest and shall be enforceable only with regard to the right, title and interest of the Landlord as the same may be encumbered. It is understood that in no event shall the Tenant have any right to levy execution against any property of the Landlord other than the Landlord's interest in the Premises.

24. REPRESENTATIONS

This lease upon execution by Landlord and Tenant shall constitute the entire agreement between the parties hereto relating to the Lease and supersedes all prior or other representations in connection with the Lease and this Lease cannot be changed, except in writing signed by both Landlord and Tenant.

25. RIGHT OF FIRST REFUSAL

The Landlord shall afford the tenant the right of first refusal to purchase the leased premises during the term of this Lease Agreement, or any execution thereof. If the Landlord desires to sell the premises to a bona fide good faith purchaser during the term of this Agreement, or any extensions thereof, Landlord shall immediately give Tenant written notice pursuant to paragraph 15 of this Lease Agreement. The Tenant shall then have thirty (30) days of Notice to provide Landlord with a written purchase offer for the same terms and conditions as made by the bona fide purchaser. In the event that the Tenant shall fail to exercise the right of first refusal within the thirty (30) days after receipt of Notice, the right of first refusal shall terminate and the Landlord may convey the premises. In the event that the bona fide purchaser shall fail to close said conveyance, the right of first refusal shall revive.

IN WITNESS HEREOF, the parties hereto have duly executed this Lease as of the day and year first written above.

LANDLORD:

IMAGING REALTY GROUP LLC

/S/WILLIAM G. BOULTER

By: William G. Boulter, Member

TENANT:

DYNAMX, INC.

/S/WILLIAM J. GREEN

By: William J. Green

TENANT:

/S/WILLIAM J. GREEN

By: William J. Green, as an Individual

/S/RONALD J. GREEN

By: Ronald J. Green, as an Individual



**EXHIBIT 10.32****BILL OF SALE**

Dynamx, Inc., a New York State business corporation located at 7 Bryden Park, Webster, New York 14580, being the sole owner of the equipment and machinery set forth in Schedule A attached hereto and made a part hereof, does hereby sell, transfer and convey all rights, title and interests to and in such equipment and machinery to Torvec, Inc. a New York State business corporation located at Powder Mills Office Park, 1169 Pittsford-Victor Road Suite 125, Pittsford, New York 14534.

By this Bill of Sale, Dynamx and its principals hereby warrant that Dynamx owns all such equipment and machinery outright, there are no outstanding security interests to and in such equipment and machinery whether represented by liens or otherwise and that no other party has any interest, whether secured or otherwise, in such equipment and machinery.

Dynamx, Inc.

By: /S/RONALD J. GREEN  
Ronald J. Green, Vice President

/S/WILLIAM J. GREEN  
William J. Green

/S/RONALD J. GREEN  
Ronald J. Green

/S/NICHOLAS M.KRENT  
Nicholas M.Krent

Schedule A

One Mustang Dynamometer (Model MD-500; Serial # 18385)

One Car Lift

One Compressor

Leasehold Improvements including dynamometer pit and fixtures, fluorescent lighting, security system, 220 volt circuit, electrical outlets, HVAC hoses and blowers

## **Lease and Services Agreement**

**Between:**

**Robert C. Horton as Landlord, and**

**Torvec, Inc., as Tenant**

**Witnesseth:**

The Landlord hereby leases to the tenant the premises located at 38 Foster Rd., Canandaigua, NY, said premises constituting a 3,131 square feet facility consisting of a 308 square foot office, a 231 square foot conference room and a 2,592 square foot machine shop and manufacturing facility commencing on March 1, 2005 and terminating on the last day of February, 2006, to be used and occupied for Tenant's automotive business only. Landlord shall during the Lease term, furnish the services of three engineers and two machine operators at the facility.

### **1. Rent**

Tenant shall pay monthly rent of 10,000 shares of the Tenant's common stock which stock shall be freely tradable by Landlord upon receipt payable in advance

on the first day of each and every month during the term of this agreement and any extensions thereof. The amount and nature of such rent shall be adjusted by the mutual consent of the parties.

## **2. Repairs**

Tenant shall take good care of the leased premises and shall, at its cost and expense, be responsible for all repairs and maintenance to the leased premises during the term of this agreement and any extensions thereof while delivering up the leased premises in good order and condition to the Landlord at the termination of its tenancy.

## **3. Insurance**

Tenant also agrees to hold Landlord harmless from any liability or loss caused from its operations and activities at the leased premises.

## **4. Hazardous Waste**

Tenant shall be responsible for cleanup, including fines, for any spills of hazardous waste materials, including but not limited to oil, antifreeze, hydraulic fluid, transmission fluid, and similar automotive materials, whether on the inside or outside of the leased premises. Tenant furthermore agrees to hold Landlord harmless from any liability or loss caused by any violation by Tenant during the term of this agreement.

## **5. Utilities**

Landlord agrees to be responsible for the total utility expenses, including gas and electric, incurred at the leased premises.

## **6. Renewal and Termination**

This agreement shall be extended for additional one year term(s) upon the agreement of the parties and may be terminated at any time by either party upon thirty (30) days written notice, one to the other.

**AND IT IS MUTUALLY UNDERSTOOD AND AGREED** that the terms, conditions and covenants contained in this agreement shall be binding upon the parties hereto and upon their respective successors, heirs, executors and administrators.

**IN WITNESS WHEREOF**, the parties have executed this agreement this 18th day of March, 2005.

TORVEC, INC.

/S/PHILIP A. FAIN

By: Philip A. Fain  
Chief Financial Officer

ROBERT C. HORTON

/S/ROBERT C. HORTON

Robert C. Horton

**EXHIBIT 23.1****CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-114650), Form S-8 (No. 333-110769), Form S-8 (No. 333-105524), Form S-8 (No. 333-101130), Form S-8 (No. 333-102650), Form S-8 (No. 333-80443), Form S-8 (No. 333-47392), Form S-8 (No. 333-72894), Form S-8 (333-75872), Form S-8 (No. 333-82006), and Form S-8 (No. 333-69123) of Torvec, Inc. of our report dated March 30, 2005, with respect to Note A, April 5, 2005, on our audit of the consolidated financial statements of Torvec, Inc. which is included in the annual report on Form 10-KSB for the year ended December 31, 2004.

/S/ EISNER LLP

New York, New York  
April 6, 2005

**EXHIBIT 31.1****CERTIFICATIONS**

I, Philip A. Fain, Chief Executive Officer and Chief Financial Officer of Torvec, Inc., hereby certify that:

1. I have reviewed this annual report on Form 10-KSB of Torvec, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [Reserved] [Paragraph omitted pursuant to SEC Release Nos. 33-8392 and 34-49313.]
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 11, 2005

/S/ PHILIP A. FAIN  
 Philip A. Fain  
 Chief Executive Officer, Chief Financial  
 Officer

**EXHIBIT 31.2****CERTIFICATIONS**

I, Samuel M. Bronsky, Chief Accounting Officer of Torvec, Inc., hereby certify that:

1. I have reviewed this annual report on Form 10-KSB of Torvec, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) [Reserved] [Paragraph omitted pursuant to SEC Release Nos. 33-8392 and 34-49313.]
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 11, 2005

/S/ SAMUEL M. BRONSKY

Samuel M. Bronsky  
Chief Accounting Officer



**EXHIBIT 32**

**Certificate pursuant to 18 U.S.C. Section 1350,  
as adopted pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Torvec, Inc. ("Torvec") on Form 10-KSB for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Philip A. Fain, chief executive officer and chief financial officer of Torvec, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Torvec, Inc.

/S/PHILIP A. FAIN  
Philip A. Fain, Chief Executive Officer,  
Chief Financial Officer

April 11, 2005

**Issuer Statement**

A signed original of this written statement required by Section 906 has been provided to Torvec, Inc. and will be retained by Torvec, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

